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THE MAGAZINE OF WALL STREET
and BUSINESS ANALYST

Member of Audit Bureau of Circulations

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With The Editors

A New Legal List

INVESTING for a trust fund can be a very simple job or it can be most difficult. If the trustee sticks to his legal responsibilities he cannot be held liable because the beneficiary suffers a loss of income. He buys the securities on the legal list, no matter how little they yield, no matter how certain it may seem that these are not the most satisfactory investments at the time of purchase. The opposite type of trustee who conscientiously searches for the best way to conserve principal and enlarge income runs into all sorts of difficulties.

Several states have removed the most formidable obstacles by broadening the field of investment for trusts to include common stocks. New Jersey did so a couple of years ago and the change in the law was recently upheld by a court there. The court has indeed been so obliging as to name the common stocks that would, in its opinion, be suitable for trusts. We are not going to enumerate the stocks here. Any who care to may see the complete list in "For Profit and Income" on page 569. We prefer to use this space in puttering around among a few of the issues and among random thoughts called up by the whole procedure.

The thirty-six stocks named are all good, well-known issues, conservatively capitalized and mainly with excellent earnings records. There are three utilities among them, Public Service of New Jersey one, so the court evidently sees a fairly prosperous outlook for that industry. Let us hope that all future PUB rate cases and tax questions come before the same type of tribunal. That old blue chip for half a century with a dividend average of $8.00 annually for 82 years to 1931, Jersey Central is of course not mentioned. The court goes out of the country for one investment in picking International Nickel.

Every judge faced with the problem of going on record with a semi-permanent list of stocks for conservative investment should recall Mark Twain's entry in Puddin' Head Wilson's Calendar—

"OCTOBER.—This is one of the peculiarly dangerous months to speculate in stocks in. The others are July, January, September, April, November, May, March, June, December, August and February."

Seriously, though, we feel sure the court intended only to lay down a starting point, not a rigid ukase which would restrict choice for years to come. That would be to duplicate the same handicaps now impeding trustees. It would violate the one investment canon that stands up year after year—that change is the only certain thing ahead.

★ ★ ★ IN THE NEXT ISSUE ★ ★ ★

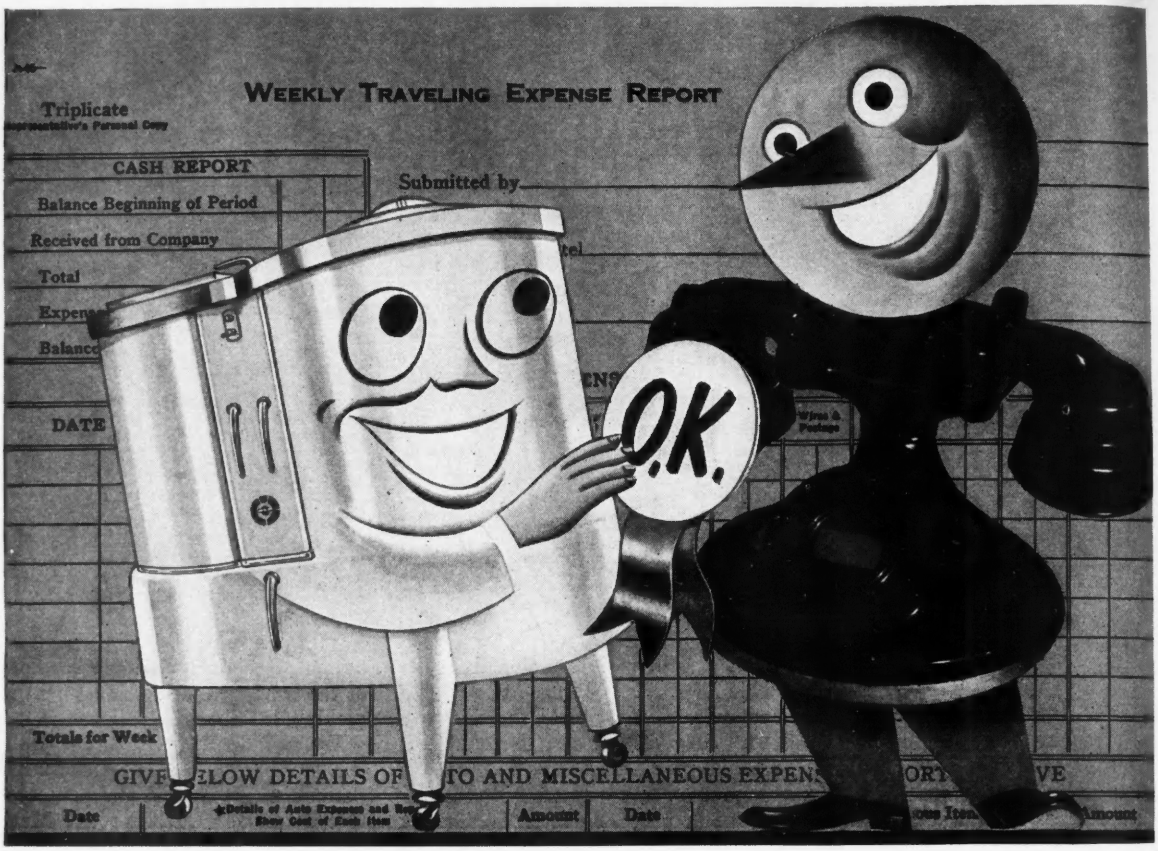
Balance of Financial Power Comes to the U. S.

by NORMAN TRUMBULL CARRUTHERS

Fourth Quarter Business Prospects

A realistic picture of the near-term outlook for business . . . Looking ahead to year-end possibilities . . . The effects of war.

by JOHN C. CRESSWELL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THE MAGAZINE OF WALL STREET

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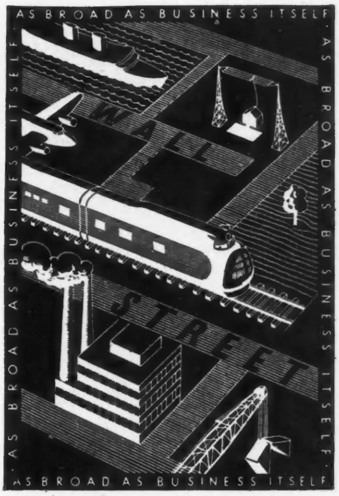


Questions of the Day

Does war in 1939 mean the same boom in commodity markets that followed the last war, despite increased supplies and improved production methods?

The first reaction of most commodities to war in 1914 was a speculative rise of insignificant proportions, followed by six months of divergent trends. Wheat continued upward as did hides and wool, while cotton, petroleum, iron and steel and nonferrous metals were lower at the end of the year than in August. It was not until the middle of 1915 that practically all raw materials joined in the climb that was to put wheat up to $3.45 a bushel and cotton from less than 10 cents to over 20 cents a pound. Except for foods, exports of all major commodities were smaller in the last five months of 1914 than in the same months of 1913. Buying by Europe in any quantity did not occur immediately and speculators anticipated a short war. The present situation differs from the older one in most individual commodities; wheat and cotton, for instance, are far more widely grown, copper is no longer one of our near-monopolies, and oil will play a tremendously more important role in war today. On the other hand, purchases by combatants are likely to come into the markets more promptly because of better credit arrangements for such a contingency and because the buyers realize the destructive effects of modern warfare. Public and speculative opinion recognizes the advantage of the defense over the offense clearly enough to look for a long war. Considering these factors and the action of the markets on previous scares, the rise in commodities seems to have a good chance of an earlier start this time, but should hold within far narrower limits as newly developed governmental controls are put into effect.

Is an election year necessarily bad for business and the stock market?

The record since 1896 does not support any such view. Out of the eleven Presidential election years in this period three have registered declines in business, three have shown a downtrend in the early months and a reversal soon after mid-year, and four have been years of increasing prosperity. The stock market has roughly corresponded with changes in the business picture. Uncertainty is normal for election years and dire things are predicted if the vote fails to turn out the way each disputant thinks it should, but business seems to go along about as usual.

What is the status of the A. F. of L.-C. I. O. battle and what are the chances of a labor peace?

As for the status of the battle, not many better authorities could be quoted than Benjamin Stolberg, who has this to say in the *Saturday Evening Post*:

"Less than two years ago the C. I. O. and the A. F. of L. were about equal in size. In drive and in influence the

C. I. O. was dominant, and even seemed destined to supplant the A. F. of L.

"Today the A. F. of L. has 3,750,000 dues-paying members. The C. I. O. has about 1,250,000. Incredible as it would have seemed two years ago, the A. F. of L. has gained more dues-paying members since the C. I. O. began than the C. I. O. Moreover, it is growing in inner stability, while the C. I. O. is in chaos.

"There is one basic reason for this disintegration of the C. I. O. All other reasons flow from it. The Communist Party, which penetrated the C. I. O. from the beginning, has increasingly dominated its policies, subverted its purposes, dissipated its energies, and disrupted its unions."

Peace between the two rivals was close a few months ago but it now seems further away than ever. If it comes under present conditions or under the future ones that the trend indicates, it will mean the end of what the C. I. O. has stood for on the American labor scene. The A. F. of L. with the C. I. O. inside its digestive system will be bigger and broader, willing to accept industrial as well as craft unions, providing a place for the less skilled workers, but it will not be infected with the virus that ruined the C. I. O. It will probably avoid the methods that have lowered the labor cause in public eyes and hurt the movement politically. The decline of the C. I. O. has taught radicals and conservatives alike a useful lesson.

The Trend of Events

THINK HARD, AMERICA . . . No amount of diplomatic language can alter the realities which have plunged Europe into its second major war in one generation. For six years Nazi Germany has rested its domestic and foreign policy on the foundation of lies and brute force. Year after year Hitler's ambition to gain hegemony over Europe, if not the etire world—whether by economic penetration or military force—has broadened. Grab has followed grab. He took Austria, Czechoslovakia and Memel before the British and French really awakened to their grave peril. It he succeds in taking Poland, he will turn next to Hungary or Roumania or Yugoslavia.

The British and French are fighting neither to save Poland nor to preserve Democracy. They are fighting for their own existence. We are living in a practical, hard-boiled, cynical world. Whether the United States manages to stay out of this war or whether it eventually is drawn in, what we need to do now is cut out the oratory and give thought primarily to how our own interests can best be served in the dangerous period of world history now begun.

The vast majority or our people ardently hope Britain and France will win this war. They sense the reality that a defeat for Britain—with the sinking or confiscation of the British navy—would be a disaster for us, forcing us at the least to divert major and frantically rapid effort to the building of our own armaments on a scale never before dreamed of, with all of the evil consequences that would imply.

We could make a British defeat improbable by going to war promptly on her side. We could help in important degree by making all needed materials available on a "cash and carry" basis. We could edge our way into war by furnishing materials at our own cost or by limited use of our navy. The one certainty is that we can not have our cake and eat it too. The time has come to weigh the problem in a quite cynical, hard-boiled way. Self-preservation is the first and strongest law of nature.

WAR CHESTS IN U. S. . . . There are two ways of looking at the investments and other assets in the United States held by Great Britain and France. One is to consider them a threat because of the possibility of sudden liquidation; the other is to look upon them as representing purchasing power which will be used to buy American goods in wartime. Arrangements made to handle the stock and bond investments have thoroughly anticipated the need for such precautions; they have not been last-minute expedients which would proclaim weakness by their haste, and they appear well calculated to do the required job. Considered as fairly liquid assets, these investments amount to an impressive quantity of potential sales by American companies. The Department of Commerce estimates that together the investments of Britain and France in this country total close to $3 billions, of which approximately $850 millions are in the form of dollar balances and other short term funds. Ear-marked gold held here, not included in the estimate, is somewhat over $1 billion for European account, with the democracies owning the bulk of it. British investments aside from ear-marked gold total somewhere between $2.3 billions and $2.4 billions, of which almost $600 millions represent direct investments in enterprises here many of which could hardly be liquidated on short notice. Practically all of the French investments totaling between $500 and $600 millions are in forms which would allow ready liquidation. Canadian investments in this country are estimated at $1.4, Swiss and Dutch combined at $2.0 to $2.5 billions.

HEAVY INDUSTRY THROUGH? . . . Recovery in consumption lines, not only as compared to two years ago but as compared to ten years ago as well, has emphasized the failure of heavy goods industries to make any sort of respectable comeback. We are told that this unbalanced condition is one of the chief obstacles to healthy progress. Some in high quarters go so far as to accuse the American economy of old age in the sense

that its days of vigor and growth are over. "Economic maturity" is the New Deal term. The thought was cogently put by the head of the department handling labor affairs. He said:

"The rapid development of machinery has brought about what is commonly called overproduction. The nations have overstocked themselves with machinery and plants far in excess of the wants of production. This full supply of economic tools to meet the wants of nearly all branches of commerce and industry is the most important factor in the present depression. It is true that discovery of new processes will undoubtedly continue, and this will act as an ameliorating influence, but it will not leave room for marked extension such as has been witnessed during the past fifty years or afford employment to the vast amount of capital which has been created during that period. The day of large profits probably is past."

When Carroll D. Wright, U. S. Commissioner of Labor, made that guess fifty-three years ago, he reasoned from facts which were more discouraging in many ways in 1886 than are those of 1939. His guess could hardly have been poorer, but first prize for that competition will have to be withheld until current predictions can be rated.

STERLING ADRIFT . . . Pressure on sterling increased with each of England's steps in the direction of war preparation. Up until the last week preceding hostilities, however, the Exchange Equalization Account had defended the $4.68 level with all the resources at its command—that is to say with its gold which would be so valuable in case of war. England needed a strong pound if she were to be forced to make huge purchases abroad, since depreciation in her currency would naturally reduce its buying power. She needed her gold even more desperately, however, and that was doubtless the cause back of abandoning the level at which sterling had been held. Successive days starting with the 25th of August saw extensions of the downward trend interrupted only by short rallies, with the $4.20 mark reached on the day Germany began full-scale "reprisals". The pound is thus once more adrift, but with far different implications from those of eight years ago when economic pressure forced it off a gold backing. There is no question of deflationary effects either on our own or world price levels. The whole sequence of warfare in which a continent must suspend normal production points rather to the type of inflation, though probably milder, accompanying the last war.

AUTO OUTLOOK . . . Come what may in Europe, the domestic motor industry faces what promises to be a thoroughly satisfactory selling season. Total passenger car registrations are expected to reach a new peak comfortably in excess of 26,000,000 units by the end of the year. Used car stocks are at comparatively low levels and generally lower prices for 1940 models, in reflection of substantial savings on steel purchased last spring, should prove an important sales stimulant. The labor situation has been markedly improved and the only threat to uninterrupted production now remaining appears to be in the parts industry. Among car manufacturers themselves, real progress has been made toward settlement of the dual union situation that resulted from the split of U.A.W. into C.I.O. and A.F. of L. factions. Perhaps the most interesting feature of the whole picture, however, is the entirely new seasonal production pattern that will be seen this year due to earlier introduction of new models. The seasonal factor last year did not become operative until tale September, rising shaply in October and gradually thereafter to a peak in April and May. As for the 1939-40 season, however, seasonal impluse began to have effect in August and its influence will increase most rapidly this month, reaching a top in October, tapering off slightly through the remainder of the year and remaining on an even keel until mid-spring. In terms of motor company earnings, the effect in all likelihood will be benefit the last quarter of 1939 and the first quarter of 1940 somewhat at the expense of operations next spring.

AIRCRAFT EXPORTS . . . Now that the worst has happened and Europe has cast in her lot with Mars, the outlook for the American aircraft industry becomes an open question. That exports have comprised a very substantial portion of the industry's sales of late is common knowledge. Shipments of planes and parts abroad in the first seven months of this year totaled about $58,000,000 and it is estimated that such deliveries during the final five months of 1939 will come to approximately $50,000,000. In the latter connection, it is of interest to note that, so far as is generally known, all companies are protected against loss on foreign orders in the event of application of the Neutrality Act. Contracts have been so worded as to permit delivery in this country in the latter contingency. This, however, is not the chief element of uncertainty with respect to the industry's prospects. A more pertinent question is what will be forthcoming in the way of new business from abroad when current orders have been cleaned up—as they will be by next spring at the latest. According to Major Al Williams, Scripps-Howard aviation authority, the British are turning out fighting aircraft faster than they can train men to fly them and are exporting planes and engines to virtually all non-Axis European countries. France, too, it may be presumed, is now well equipped to build all the planes she can use and it is estimated that these two countries are currently capable of replacement production at a rate of 3,000 planes or better per month. What, then, are the chances of additional foreign military orders for American manufacturers? Not very good, apparently. And in lieu of overseas business, what will keep our aircraft factories busy? Domestic commercial and, more especially, military orders, obviously, for these already account for upwards of $250,000,000 or more than three-quarters of the industry's present backlog. But there is a catch: domestic business, either commercial or military, is nowhere near as profitable as foreign business.

What Market Action to Take

The market has quickly adjusted itself to war. The trend is up and spectacularly fast advance is possible. Only the complete surprise of an internal overturn in Germany could change the near-term picture.

BY A. T. MILLER

In these columns a fortnight ago it was observed that the climax of the then existing tension "will be quite obvious and sudden when it comes", and the position was taken that a buying opportunity would be provided whether clarification of the prevailing European uncertainty took the form of negotiated settlement or war.

As is happened, it was a war climax. The initial response to the German invasion of Poland was a brisk reaction but the decline registered in opening prices on that fateful Friday, September 1, was not importantly extended in the next four hours of trading and in the final hour the market "turned on a dime" in the most concentrated rush of buyers seen in many years.

In that first market session under war conditions several important questions in the minds of investors and speculators were answered. Had months of war uncertainty and recurrent European crises built up an effective psychological cushion? Answer: Yes. Had the financial machinery here and in London been prepared to withstand the worst contingency? Answer: Yes: Would there be a heavy volume of foreign selling? Answer: No. Would our security exchanges have to be temporarily closed? Answer: No.

Only a small minority of individuals desiring to buy stocks—those who sensed the significance of the immediate selective rise in commodities and of the market's demonstrated resistance to shock in the first several hours on September 1—were able to buy anywhere near bottom prices. The buying rush between 2 P. M. and the close on that day and on the opening Saturday carried prices of numerous "war brides" up from 5 to 10 points or more, while some of the low-priced, speculative issues favored under prospective war-inflation advanced 50 per cent or more within the same brief time. Moderate recession in the closing hour Saturday reflected temporary uncertainty as to whether Great Britain and France would make a last minute crawl out of their pledge to Poland, together with normal speculative profit-taking in advance of the two-day holiday.

As need hardly be noted here, the transition to war conditions produced instantly the same kind of radical change in market leadership as was brought about somewhat more gradually after the re-opening of the markets late in 1914. Demand naturally converged chiefly on steels, non-ferrous metals, leather stocks, sugar issues, and aircrafts; and to a lesser extent on machine tools, chemicals, equipments, motors and oils. Utilities, rails, merchandising issues and majority of consumption goods stocks generally were promptly relegated to the background.

Despite the sharp advance that has already taken place, it is worth noting that many of even the most coveted issues, at closing prices September 2 were still well under highs made earlier in the year when buyers and sellers were appaising values by more or less normal standards rather than as "war brides." For instance, last week's final prices were 5 to 16 points under the previous 1939 highs for such issues as American Metal, American Smelting, Anaconda, Bethlehem Steel, Climax Molybdenum, Kennecott, Phelps, Dodge, St. Joseph Lead and United States Steel.

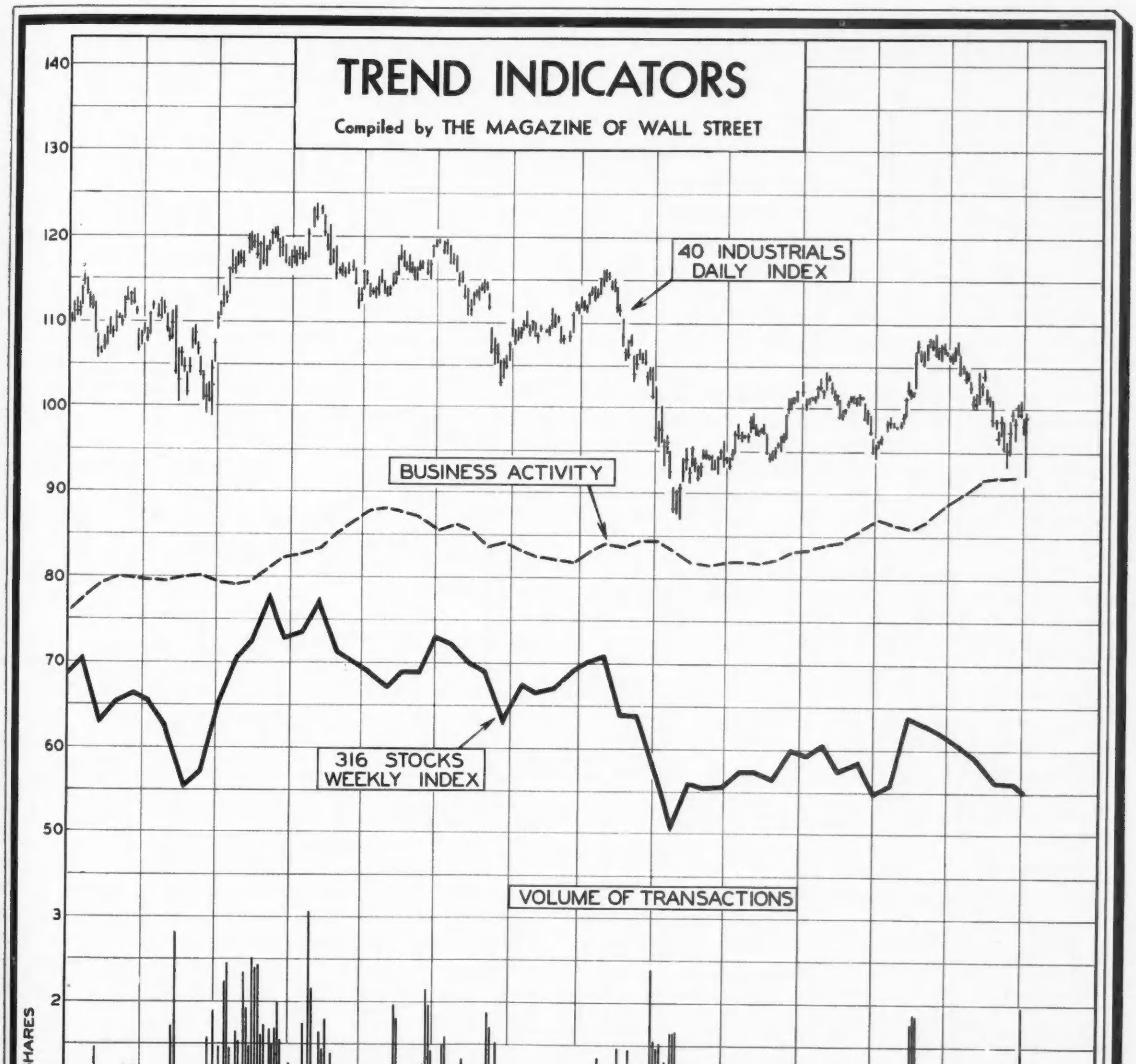
The general market trend can only be interpreted as up, subject to marked selectivity; it will not be surprising if those who wait to buy on reactions lose more than they gain by waiting; and the question of when and at what levels speculation will be dangerously over-done is premature. It must not be forgotten that, unlike 1914, the economic-financial factors in the United States were strongly bullish and business activity was pointing steadily up throughout recent months during which European uncertainties retarded the market and inhibited investment and speculative psychology. Approaching Labor Day, the market in modern times was never so far behind business—as shown by the recent abnomally low ratio of our weekly index of 316 stocks to our weekly business index.

It has been a familiar tendency of this market since August, 1937, to concentrate the greater proportion of important price swings—whether up or down—within a relatively short period of time. It would not be out of character if it induges in a spectacular flight over

the immediate future. There is room for substantial advance merely in adjusting the market's level to the existing realities of business volume and earning power, and the sudden psychological release from months of doubt and tension—even though it has taken the deplorable form of war—may speed this process.

The most likely effects of the war upon our economy are analyzed in detail in a special article on following pages. Suffice it to note here that on last Friday sellers of hides and leather, wool goods, burlap, wood pulp, lead and certain other commodities withdrew from the market; and that retailers and wholesalers began to figure on a sellers' market. Whether justified or not by potential supply-demand factors, domestic forward buying probably will give a boost to business activity even before war orders enter the picture in any important volume.

One word of warning. Germany is a closed book. Nobody in the outside world knows the actual situation there. While all probability points to a protracted war, surprise is possible. Should the Hitler regime be overturned in some wholly unpredictable manner, the war *might* be short and stop-loss protection on "war bride" stocks would come in handy. No such reaction would be too stiff a price for a solid peace before the toll in human life and in monetary costs reached proportions guaranteeing ultimately the world's worst social, economic and financial disaster. —Monday, September 4.



Due to great economic and financial changes during the past generation, the World War experience is only a partial guide.

How War Will Affect Business

BY LAURENCE STERN

War is the most extreme abnormality known to mankind. Its violently disruptive effects upon the world's previously existing economic and financial relationships are inescapable, but will be conditioned by a variety of wholly unpredictable contingencies.

As this is written the status is undeclared war by Germany against Poland, with Great Britain and France in a declared state of war with Germany in fulfillment of their treaty obligations to Poland. We can not guess how long the conflict will last. We do not know to which side the ultimate victory will go. We do not know whether other nations—Italy or Russia or Japan or the United States or all of these—will ultimately be involved.

Yet the long run consequences of European war on American business, as distinct from the initial impact, will depend largely upon just such contingencies. Our World War experience is far from an infallible guide, not only because there is no assurance whatever that its military pattern will be similar, but also because of the great changes in economic relationships that have come about since 1918.

In the first rush of the Kaiser's armies toward Paris in the summer of 1914 the Germans came very close to winning a lightning war. Military historians agree that they failed only because Field Marshall von Moltke, in a moment of doubt, deviated from his original plan of attack. Suppose he hadn't. There would have been no protracted war and no war boom for the United States. More than once the outcome of that war hung upon a slender thread of happenstance. Submarines almost starved Britain to defeat—but in the effort did more than anything else to draw in the United States and thus turn the tide irrevocably against Germany.

At the very *start* of this war the repercussions differ in important degree from those which followed outbreak of hostilities in late July, 1914.

Based on World War experience, the preconceived pattern—which many people set up in their minds in recent weeks as the crisis developed—was approximately as follows: An initial severe crash in security values, accentuated by the thinness of the present market; probable temporary closing of stock exchanges; a temporary and possibly substantial reaction in American business activity; re-opening of the security exchanges; a major rise in stock prices, led by "war babies"; the gradual development of an inflationary business boom.

Whatever the later chapters in this story may be, the opening chapter certainly deviated from the above outline. The stock market came closer to taking the outbreak of a major European war in its stride than the wildest bull could have asked. There was no crash, no engulfing wave of liquidation—merely a short, stiff reaction; a few hours of indecision; then a buyers' panic as investors and speculators rushed to place orders for equities which they believed to be favored, or relatively favored, under war conditions.

In view of the market's demonstrated fortitude—which was aided by prompt advance action by the British financial authorities in setting up controls to prevent panicky dumping of foreign securities by British nationals—fear that our exchanges would be closed quickly vanished.

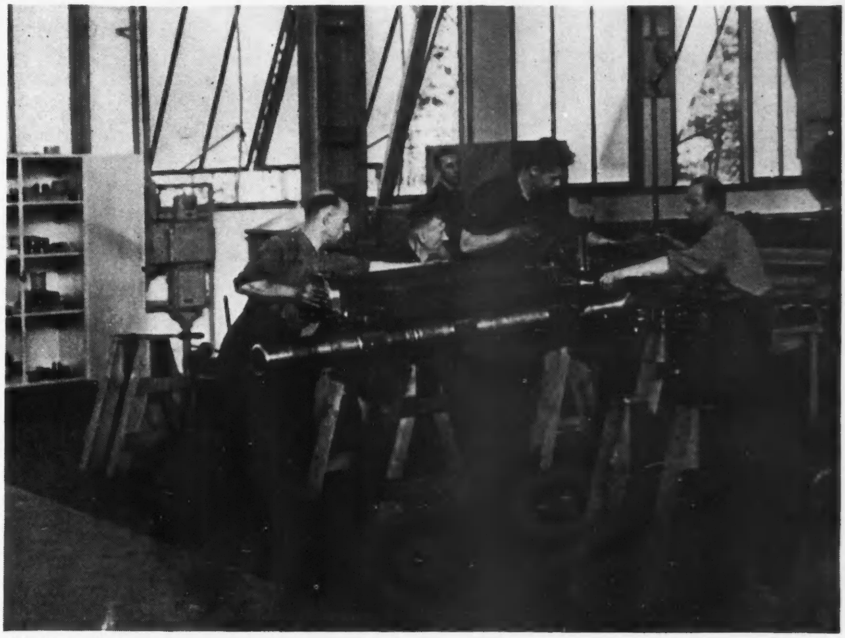
Stock Price Gains June, 1914, to 1915 High

Industry:	Percent Appreciation
Machinery & machine equipment	458
Automobiles & trucks (General Motors)	452
Steel & iron (excluding U. S. Steel)	293
Wool & woolen goods	244
Chemicals	117
Shipping & shipbuilding	85
Railroad equipment	78
Leather	68
Textiles	66
Paper & paper products	53
Fertilizer	51
Steel & iron (U. S. Steel)	43
Retail trade-mail order	40
Lead & zinc†	40
Copper & brass	34
Retail trade	33
Mining & smelting	28
Electrical equipment	21
Office & business equipment	20
Food products other than meats	13
Telephone & telegraph	10
Utilities	10
Railroads	6
Tobacco-cigarette manufacturing	4
Cowles Commission monthly all-stock price index	17
Cowles Commission monthly all-industrial stock price index	42

†July index. No index for June published.

Both the market's performance and assurance of continued operation of the security exchanges have a pertinent and hopeful bearing on the near term business prospect in this country. The stock market is not only a more or less accurate business barometer but also a business influence—far more so than in 1914. Had Hitler's climactic blow caused a serious decline in values and a closing of the exchanges, a substantial business set-back would unquestionably have followed in the interim before any possible war boom could get under way.

As it is, the consensus of business opinion will very likely shape itself to the stock market, and at worst no more than a relatively short pause need be expected in the recovery movement which began last year, which was interrupted in the forepart of this year by several months of reaction and which took a renewed lease on life in the late spring.



Movietone News.

Rushing arms output in newest and most important plant at Stalowa Wola, Poland.

In contrast to the steady upward trend in the composite business indexes over the past four months, the main trend had been down for more than eighteen months prior to the beginning of the war in 1914 and during the last five months of that year the decline was accentuated by the war-time trade disruptions, deflation of security prices both at the start of hostilities and in over-the-counter transactions after the exchanges closed and by the general financial disorder of the period.

Both in business and finance the transition to war conditions this time will be far more orderly than it was twenty-five years ago. To the unprepared world of business and finance, as well as to the man in the street, the explosion in 1914 was an almost complete surprise. Not so in 1939. There had been many months of psychological preparation. More important, prudent safeguards to minimize the shock had been established in advance by the Government of the United States and by the British and French governments.

On the financial side the chief differences between our present status and that of 1914 are as follows:

We were a debtor nation in 1914. The dollar was weak because of an unfavorable balance of current international payments, and there was only a relatively small amount of gold available to support it. Europeans had large balances and holdings of American securities. The capital movement was strongly against this country, as foreigners converted their American holdings into gold for withdrawal. No machinery had been set up by Britain for the orderly mobilization and sale of American securities held by her nationals. The pound sterling soared to a $7 value. In theory the high dollar value of sterling should have aided our export trade. In fact it did nothing of the kind. Five or six months passed before war demand began to lift our exports and our business activity; and the broad wholesale price index of the U. S. Bureau of Labor Statistics did not begin to rise until late in 1915, sixteen months after outbreak of war.

Today the dollar is buttressed by more than $16,000,000,000 of gold, a total far in excess of any conceivable requirements. The excess reserves of member banks of the Federal Reserve System alone exceed all foreign security holdings and short term balances. Except as prevented by official controls in some countries, the movement of foreign capital is toward the United States. While foreign security holdings are enormous, in relation to the market value of all listed securities this total is much smaller than in 1914, and, as heretofore noted, machinery to assure orderly liquidation, when and if needed, is already functioning. The pound sterling is as weak now as it was strong in 1914. Theoretically, this should exert a deflationary influence on our price structure and export trade. Actually, if we may take the immediate strong rise in many commodities at face value, anticipation of radically altered supply-demand relationships, to be brought about by war, will more than offset the change in dollar-pound ratio.

Even in advance of the development of actual war orders flowing to American industry, speculative rise in selective commodities may logically be expected to induce considerable forward buying of purely domestic character, exerting a stimulating influence on business activity.

Assuming protracted war and attempting to weigh its possible long run effects upon the commodity price level, two counter-balancing facts present themselves. On the one hand, supplies of commodities and sources of commodity production greatly exceed those of 1914, and initial stocks of war materials in England and France likewise greatly exceed those (*Please turn to page* 586)

Happening in Washington

What Can the Republicans Offer?

BY E. K. T.

THE Republican party during the past couple of years has occupied the traditional role of the intelligent minority party in any legislature, and has done it rather well. It is looking forward to the time next year when it will go before the voters with the request that it be given charge of the national administration. It cannot do this simply on the basis of criticism and obstruction, but must offer a definite, positive program. This program is now being formulated with great care, and party leaders assert that it will be not only concrete and constructive but practical and liberal—as distinguished from theoretical and radical.

During the last session of Congress the G.O.P. has been transformed from a hopelessly ineffectual conglomeration of Congressional hold-overs and new-comers elected on local issues into a forceful and well-knit minority which has made its opposition felt in countless ways and has already played an important part in determining national policies. This has been brought about through the development of new leadership from the ranks in Congress. Former party leaders, managers, and contributors have been quietly shunted aside while policies and strategy have been evolved on the spot by men who have recently been elected and who have kept in close and constant contact with their constituencies. It is these men who will write the party's platform next June, aided, but not controlled, by committeemen and staff experts of the national party headquarters.

A major part of G.O.P. strategy has been to keep relatively quiet and let the Democrats squabble among themselves. This policy originated among the party members in Congress and has been forced upon the titular leaders outside—showing where the real control of the party now lies. While quite successful to date, the new leaders fully realize that this policy is not enough to win an election, and they have already begun to shape the outlines of a positive platform. This is being drawn from the voting records in House and Senate, from speeches of party leaders, from letters from voters and reports of field workers, and particularly from reports of special committees on a dozen current subjects appointed during the session by House Minority Leader Martin. A special G.O.P. program committee headed by Dr. Glenn Frank is about ready to make a partial report with a final report reserved for the convention next June. This report, and the results of research which has been conducted by the headquarters staff of economists, will be used but it will not be controlling, as the Republicans who came through the last election victoriously discovered that they got little help from the "Republican brain trust" and that their success depended largely on their individual evaluations of the temper of the voters.

Keep the United States out of war will be one of the principal slogans of the G.O.P. next year. Just how they will propose to accomplish this will depend on European and Asiatic developments, and it appears now that their program will be more or less improvised and opportunistic. They will play upon the rather widespread popular fear that President Roosevelt yearns to take an active part in European politics and throw the weight of the United States into the world balance of power. To this end they will try to steer a course between isolation and opposition to aggression, but leaning toward the former. Republican opposition to change in the neutrality law was not so much satisfaction with the present law as fear that Roosevelt might use his amendment for "foreign meddling."

The federal budget will be a major issue. Republicans can't deliver much immediate economy because they have supported too many appropriations and many of them are committed to a budget of around $7 billion, but they can offer close Congressional control of the purse strings with important savings all down the line and an early, but not immediate, balance of the budget. Most important, they will oppose the idea of deficit spending as a virtue—the whole theory of pump-priming, government investment, and gambling on high future national income to nullify the debt. By promising elimination of waste, extension of bureaucracy, and new experimentation they can offer important savings, but it is doubtful that they will specifically propose drastic reductions in spendings which benefit large groups of voters.

An end to government competition with business in all lines will be promised, including a revision of the

Federal power policy without scrapping existing projects. They will offer business a chance to go ahead without fear of new interference or regulation from Washington. Existing regulatory agencies will be retained but with the promise that red tape will be cut, policies made clear-cut and impartial, federal snooping ended, and bureaucratic arbitrariness replaced with judicial processes. Investors will be promised a chance to make a fair return without government deprecation and persecution, and there will be a promise to reverse the Federal policy of driving interest rates down to levels which make private investment unattractive.

A sound monetary policy will be offered, terminating the President's emergency powers over the currency and tapering off credit inflation. In general there will be an offer of sound liberalism, reliance on private business and individual initiative, restoration of conditions for business advancement, an end to reforms and experiments, a fight against radical tendencies, and renunciation of the government's role as the distributor of wealth and the regulator of investment and business activity.

Specific proposals on a number of current issues have already been formulated by the leading Republicans in Senate and House, and a start made toward developing a positive stand on others. On this basis it appears that some of the planks in the next G. O. P. platform will line up about as follows:

Taxes—revise all taxes to remove irritants to taxpayers and promote business expansion at the same time keeping the revenue up to about the current spending level including, if necessary, higher taxes on individuals in the middle brackets.

Labor—revise the Wagner act to make it less one-sided and place more responsibilities on unions; separate judicial from investigating and prosecuting activities of N. L. R. B.; enlarge the federal strike mediation service.

Wage-Hour Law—drastic revision to make it apply only to low-paid factory workers, increase the exemptions, and make administration more flexible and penalties less drastic.

Relief—return relief administration to the states with Federal contributions and safeguards against waste, political racketeering, and disguised social experimentation and reform.

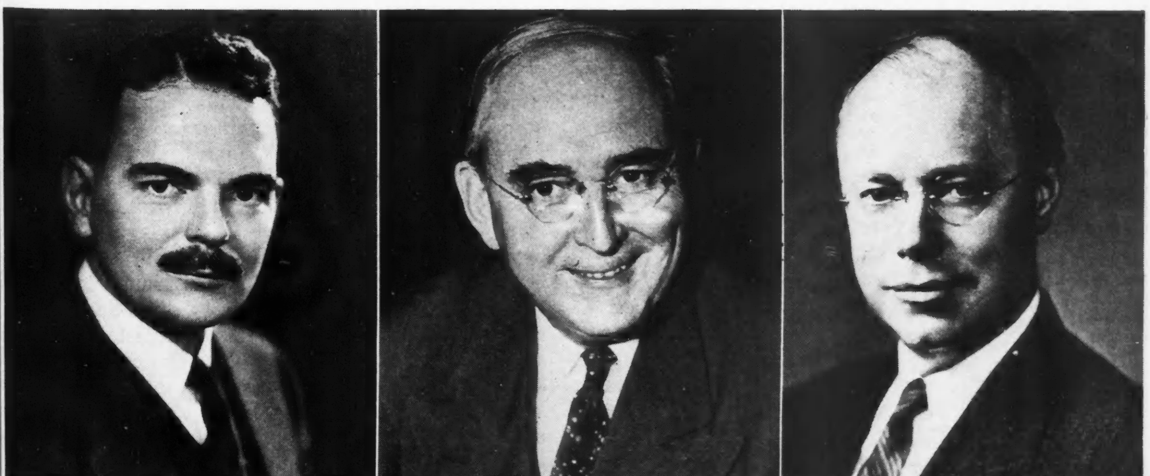
Farm—The G.O.P. farm plank is far from being formulated, but in general it will promise elimination of restrictions on production, reduction in benefit payments, and some sort of an export program.

Tariff—If not repeal of the reciprocal trade agreement program, its drastic revision to give greater protection to domestic labor and industry and less generalization of benefits to non-participating nations.

CAPITAL BRIEFS

Republican control of Senate cannot be won next year even in a G.O.P. landslide carrying several states from the Solid South. Of 33 seats at stake, 24 are now Democratic, 7 Republican, 1 Progressive, and 1 Farmer-Labor. There are now 23 Republican Senators, so if they win an additional 15 or 20 seats they would still lack a majority. Balance of power might be held by non-New Deal Democrats, but even so a Democratic Senate would serve as a check on a Republican President and House and force a middle-of-the-road administration and prevent complete uprooting of the New Deal.

Congressional investigations this fall will keep business eyes on Washington whether or not there is a special session. Those which plan hearings at various times, some simultaneously, include Dies un-American activities, LaFollette civil liberties, T N E C monopoly probe, Smith labor board, Cole oil conservation, Wagner banking and monetary policy, House W P A conduct, and tax revision. In addition, departments and commissions which have slowed down activities during vacation season will resume full schedule of hearings, reports and orders. *(Please turn to page 586)*



Wide World Photos

Dewey, Vandenberg and Taft, leading candidates for the Republican nomination.

AHEAD:—

Selective Recovery For Some Securities Selling Point For Many Others

BY ROGER CARLESON

This is the first in a series of articles on questions affecting every investment decision. Making use of a new method of dissecting market action to get at the facts, groups and industrial issues will be considered against the broad background of today's—and tomorrow's—economic setting. Future articles will appear in early issues.—Editor's Note.

How old is this recovery? Does it date from the spring of 1938 or the summer of 1932? The practical significance of the question is not immediately apparent, but the answer to it will give more than a hint of what the future is to bring. If, for instance, the upswing to 1937 be considered a closed book, terminated by a sharp short depression, then we can look at certain industries and certain individual companies and label them failures throughout a full cycle. The rails, rail equipments, the steels to a degree, the coppers except for a flurry—these are typical of the lines which flunked the recovery test. They had their chance and missed it, fell behind while other industries were gaining in relation to the economy as a whole. The assumption is possible that the same forces which held them back in the last cycle will operate in the present one, and that they are "has-beens" as investments.

If, however, the recovery is now entering its eighth year instead of its second, the conclusions to be drawn are very different. Taking the setback of 1937-1938 as a mere interruption to the main trend, it becomes quite conceivable that the industries which have so far failed, *which are as a matter of record late starters and late finishers,* will be the spectacular gainers of the approaching phase. The coppers, rails and steels were just getting under way two years ago when the slump hit them. Since that was *not* the peak of and conclusion to a period of prosperity, their opportunity still lies ahead of them.

Such reasoning lays great stress on the habit the marginal or leverage groups have of lagging early in the up-cycle and gaining ground in great strides after their pay-points have been passed. The implication is that the true "has-beens" for the current cycle are those groups which have already shown the big gains in earnings, market prices, and dividends. If we could feel sure that the best of the seven-year-old recovery does actually lie ahead we should have to admit that some of today's neglected groups may have market leadership in store for them, while some current favorites are past their peaks and imperceptibly coasting down hill.

Aside from the major problem of our position in the business cycle, though, the investor faces a state of things which has been visible for some time but which may not be thoroughly realized. When business and the stock market began their march up from the devastatingly low points of the early thirties everything had a tendency to move together. Few businesses could stay near the bottom, although the marginal ones had further to go before earnings began to climb and some have not yet regained their prestige. But just as practically all industries had nowhere to go but up, so the bulk of separate enterprises were able to show improvement. Management skill, competitive advantages, superior products and all the other desiderata were at a discount in that setting. So far as the stock market was concerned, a capital structure with plenty of leverage for the common stock formed one of the chief attractions.

Recent Swings Laid Against Old Records

	Per Cent of 1929 High Reached in 1936-37	1937-38 Lows in Per Cent of 1932 Lows	Recent Price	Per Cent of 1936-37 High
Allied Chemical	73%	292%	162	63%
Du Pont	80	411	160	87
Monsanto Chemical	133	1011	100	93
Union Carbide	79	368	80	72
U. S. Industrial Alcchol	24	100	15	25
Mathieson Alkali	82	219	21	50
Virg.-Caro. Chem.	52	475	2½	20
Air Reduction	116	390	52	60
Dow Chemical	189	568	126	79
Case	38	373	70	36
International Harvester	82	463	50	43
Deere	111	1222	17	35
Minn.-Moline	37	640	3	19
Caterpillar	114	677	41	41
Kennecott	66	541	35	50
Anaconda	40	700	25	36
Phelps Dodge	64	455	39	65
Inspiration	49	833	11	33
Miami	48	308	7¾	30
Calumet & Hecla	32	267	5½	27
Granby	15	105	6	40

Otherwise there was little need to ponder over the choice between two issues representing the same industry.

Now that the easy part of the recovery is over—and this holds true whether or not we consider an entirely new recovery to have started—there can be no doubt that the highly selective phase is here. A company can no longer show progress merely because it happens to be engaged in a reviving line of business. Not only is competition for orders keener but it has already nibbled away at prices and the margins of profit which when wide can conceal inept management or other weaknesses. Some enterprises must pay heavily for the privilege of building their sales up above recent highs. Some have gotten by so far without modernizing their equipment, but have neglected future efficiency. Their balance sheets may be impressive but a good part of the cash shown is in pledge to the maintenance of earning power.

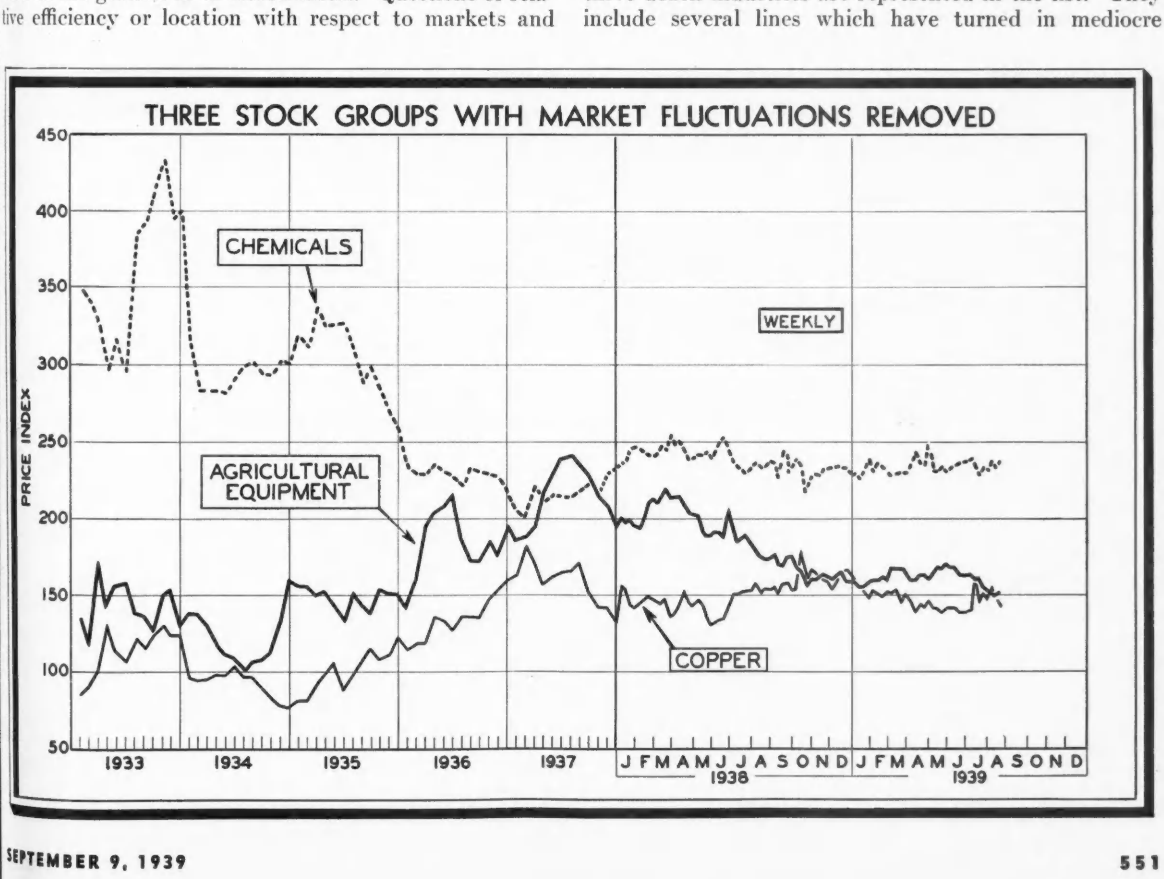
All the factors of strength and weakness are now exerting their influence on individual enterprises. They will count even more heavily as the trend continues. Therefore the choice of issue as opposed to the selection of industry has gained tremendously in importance to the investor.

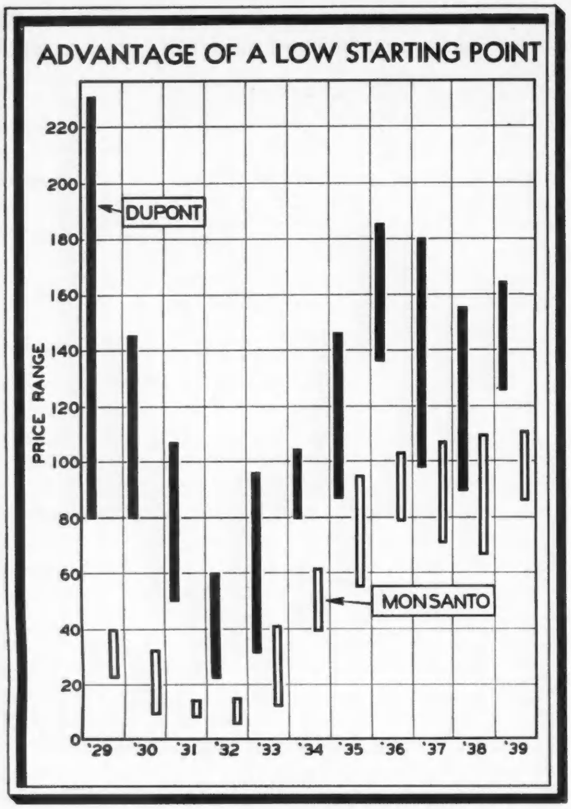
A great many examples of this change are available, but one will serve to show the practical effects. In the early bull market of 1933 when copper stocks were considered beneficiaries both of the business uptrend and of the supposedly imminent inflation period, Anaconda and Kennecott were leaders but the best and the worst of the group moved fairly well together. Anaconda had greater than average appeal because the company had a considerable debt payable in dollars while its assets were in the ground or in stored metal. Questions of relative efficiency or location with respect to markets and political events were subordinate to the two thoughts: (a) with business improving *all* copper companies would benefit; (b) with inflation ahead *all* copper companies would provide a hedge.

The approach was radically different in the rally from the March, 1938, lows. None of the coppers had gone back to the panic market levels of six years earlier. Anaconda's low was 21 while Phelps Dodge dropped to 17⅝. On the ensuing run-up they should have held about that relative position, as they did in 1937 when Anaconda at the high had a ten-point advantage.

New factors in the situation, though, broke the relationship between two companies dealing in exactly the same product. Phelps Dodge mines all its copper in the United States while an important part of Anaconda's production is abroad. South and Central American countries became less dependable fields for investment, to put it mildly. Phelps Dodge quickly passed Anaconda and has consistently out-performed the former leader, selling now at 39 while Anaconda at 25 is back almost to its starting point. In this case the purchase of a copper stock at the correct time was not sufficient to produce an outstandingly profitable medium term investment. It had to be the correct stock as well, or the excellent timing was to a great extent wasted.

The same point might be made by attacking it from the opposite direction. Of the stocks listed on the Big Board and Curb a comparative handful have sold higher this year than at their 1929 peaks. It would be logical to expect to find these remarkable exhibitions of strength concentrated in a few industries like aviation, gold mining and chemicals. As a matter of fact, though, some three dozen industries are represented in the list. They include several lines which have turned in mediocre





performances over the last few months or few years. Exclamation points might well be put after such industries as oil, sugar, steel, restaurants, paint, drugs and lead. That individual companies have been able to overcome the handicaps of their fields and show large growth over the last boom period is proof that we are in a phase of business and stock market selectivity beyond any witnessed in the last decade.

It cannot be pretended that the selection of individual issues in advance of their moves is any easier, now that it has become far more important; nor can the decision as to the future of industries or groups be approached over-confidently. Both are difficult and the problems almost inevitably overlap, but even a clear statement of the objectives should help, and the attempt to form a line of reasoning in a number of specific cases will suggest methods that should stand up in revising opinions from time to time.

Group Action Dissected

The broader problem of the relative outlook for industries is best handled by taking a glance at action of stock groups. This may be considered a technical approach and strictly speaking it is, but it actually amounts to nothing more complicated than examining effects before analyzing the causes. It supplies a starting point into which one's teeth can be sunk—facts which may be incorrectly or incompletely accounted for but which remain facts.

When studying group action, however, the stumbling block is the presence in each issue or group of influences which push the whole market up or down at the same time. Chemicals rallied in the middle of 1938 but we happen to know that the action was not the result of some development within that single industry. For the present purpose we should like to know not how much chemicals gained but how much they gained *in relation to the market as a whole*. Still more important is a longer term picture of trends with the rallies and slumps of the general market eliminated. If this can be done, then such temporary influences as the Munich crisis, a bank failure, a short-covering movement or a bullish statement by a politician need not obscure the real gains or losses which are peculiar to single industries.

Fortunately a tool is available to make the project fairly simple. THE MAGAZINE OF WALL STREET's index of 316 common stocks is made up of 43 groups each of which (with a few exceptions) is based upon the 1925 close as 100. This gives a comparison with a quiet, stable period, before many of the complications of today were present and before market swings in both directions had broken all records.

Now, if we take a certain group and month by month or week by week eliminate the market fluctuation from its moves we shall be in effect laying out a straight horizontal line which represents the broad average of the market, with another line moving up and down on the same scale. The fluctuating line is the group taken by itself, deducting from its advances any concurrent advance in the market and reducing its declines in the same way. If the market dips and the group moves up, the two moves are added in order to give the group credit for its true accomplishment.

Several crops can be harvested from this one field. A splendid bird's-eye view of the trends of the last few years in comparison with status in the middle twenties is opened up. On the accompanying chart the 100 level represents the market, unchanged since 1925. Coppers and farm equipments have gained 50 per cent over the general list, while chemicals have progressed not far short of 150 per cent. All three, though, have seen even better days during the period covered by the chart.

The action of any group average will, of course, be affected by the choice of issues to be included in the group. In the case of the chemicals two issues of which great things were expected after repeal of prohibition have since proven disappointing and this helped to raise the group far above ordinary levels in 1933 and to produce a downtrend since then. The table shown here lists the stocks used in each group with these exceptions: Monsanto Chemical, Air Reduction and Dow-Chemical have not developed sufficient market activity to be included in the chemical average, while Liquid Carbonic and Tennessee Corp. are omitted from the table; Oliver Farm is in the farm equipment average in addition to those shown, while Caterpillar Tractor is not in the group average; Granby in the copper group has paid liquidating dividends and has therefore given a somewhat deceptive market performance; Bridgeport Brass and General Cable are omitted from the table.

Seasonal habits show up under this sort of handling, that of the farm equipments to rally better than the market at the turn of the year standing out particularly in each year from 1934 to 1937. Notice also how the chemicals improved their (*Please turn to page 587*)

American Smelting

A "Blue Chip" at the Top of Every Previous Recovery Cycle and Capable of Repeating

BY J. C. CLIFFORD

Take almost any pair of alert and interested stockholders of American Smelting & Refining, leave them together for a few minutes and the chances are a conversation something like the following will transpire.

"What about Mexico?", one begins. "How much does Smelting stand to lose down there? Think we'll ever see anything like former earnings again with the Mexican properties practically out of the picture?"

"I'll bite," replies the second, helpfully, "but how about some of those South American properties? First Chile raises taxes and now Bolivia decides to grab all foreign exchange from mineral exports."

"Didn't know Smelting had any interests in Chile, but it has in Australia—biggest lead-zinc body in the world, in fact—though what may happen to it now that there's war is what bothers me."

"And what bothers me is how a man is supposed to run his business, play a little golf and still keep up with these things."

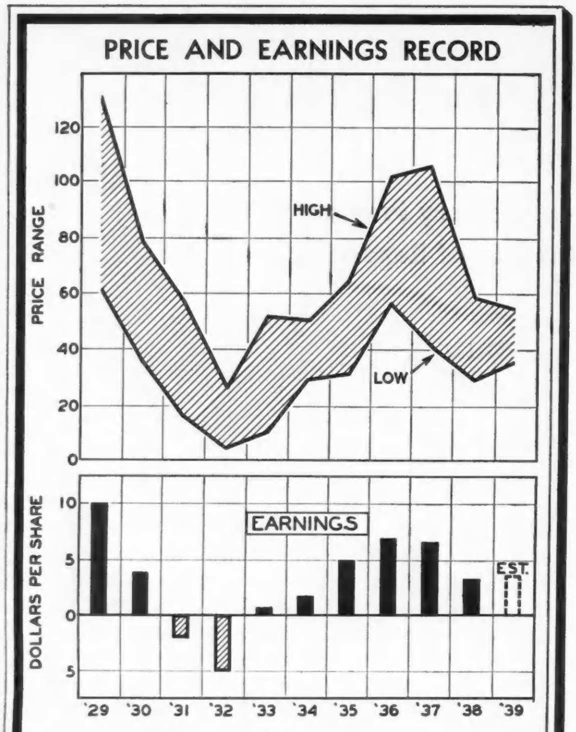
And with the latter sentiment many an investor can readily sympathize. For the questions raised above are all entirely valid but, unfortunately, there are no pat answers in the back of the book. The only way in which an intelligent opinion with respect to each of these factors can be formed is to examine Smelting's widespread activities individually and in toto and base conclusions on such actual evidence as is available.

The farflung nature of the company's operations is suggested by the names of a few of its principal subsidiaries and affiliates: Buchans Mining of Newfoundland, Cia Minera Asarco of Mexico, Northern Peru Mining & Smelting, Mining Trust, Ltd., whose subsidiaries do business in England, Australia and New Guinea, Cia American Smelting Boliviana, Saudi Arabian Mining Syndicate and—watch out for this one—Cia de Terrenos e Inversiones de San Luis Potosi. Names like those mark Smelting pretty definitely as an international enterprise and indicate that the company's business is subject to all the vicissitudes and hazards that currently attend the conduct of large scale operations in foreign fields. And so it is, but perhaps to a lesser extent than is popularly supposed. For despite its imposing array of exotic sounding subsidiaries and affiliates, Smelting's own activities are of far greater importance to overall revenues and profits and are conducted almost entirely within the United States.

As its name implies, the company's mining and fabricating interests are of secondary importance; it is engaged chiefly in the smelting and refining of non-ferrous metals, mainly on a toll basis for others but also, to a lesser extent, for its own account. Copper, lead and zinc, together with relatively minor amounts of gold

Courtesy Westinghouse Electric & Mfg. Co.

Electric equipment makers are among the largest consumers of Copper. Bars shown above weigh 250 lbs. each.



and silver, are the principal metals treated but the company's smelting by-products include a long list of such things as arsenic, nickel sulphate, sulphuric acid, copper sulphate, zinc dust, platinum, palladium, cadmium, bismuth, etc. Most important toll customers are St. Joseph Lead, two-thirds of whose mine output is handled under a contract extending to 1953, and Kennecott Copper.

Specifically, Smelting's activities may be broken down into seven main categories: (1) mining and milling of non-ferrous ores, (2) smelting and refining of own and purchased ores and crude metals, (3) custom treatment of ores of others on toll—that is, in consideration of a fee in money or metals, (4) recovery of smelting by-products, (5) purchase and reconditioning of non-ferrous scrap, turning out such items as babbitts, solders, special alloys and aluminum, brass and copper ingots, (6) fabrication of non-ferrous metal products, (7) mining of coal and production of coke and other derivatives, mainly for use in the company's own operations.

Plainly, Smelting's activities encompass the entire field of non-ferrous metals from mine and mill to smelter and manufacturing plant. Plainly, too, they are the outgrowth of a piece of corporate architecture whose merit we can better judge with a little insight of its architects and their methods of planning and construction.

Old Meyer Guggenheim laid the foundation when he decided a commercial career in Philadelphia offered but limited opportunities in the latter part of the nineteenth century and turned his attention to the then rapidly developing West. His sons helped him begin the superstructure with the organization of a small smelting and refining venture in Colorado which became, via the merger route just before the turn of the century, the American Smelting & Refining Company. Early operations were confined mostly to lead and silver mined in Colorado, Utah and Mexico but expansion of the business to include copper and zinc was a natural development.

Since the purchase of Federal Mining and Smelting in 1905, acquisitions have been numerous. Activities were at first limited to smelting and refining but, more recently, mining operations have assumed greater importance though even today they occupy a subordinate position to the company's original business. Principal acquisitions of the late 'twenties included substantial stock interests in General Cable and Revere Copper & Brass, and a half interest in the big Buchans lead-zinc mine of Newfoundland. With the onset of depression, Smelting, far from pulling in its horns, took shrewd advantage of demoralized prices further to extend its activities.

A minority interest in Mining Trust, Ltd., which controls the huge Mount Isa lead-zinc properties in Australia, was acquired in 1930. Through Premier Gold Mining, the company entered the Canadian gold fields in 1931, and a year later gained control of Federated Metals Corp., largest unit in the non-ferrous scrap business. The first year of recovery, 1933, found Smelting again setting out for gold, this time with the purchase of a West African mine and options on two more in Australia. The same year it purchased the Utah properties of Chief Consolidated Mining and also took long term leases on nearby tracts of Utah Copper. In 1934, the company contracted with Kildun Mining Corp. to develop the latter's Mexican holdings and, a year or so later, bought into the Saudi Arabian Mining Syndicate to which the Arabian government had granted an extensive gold prospecting concession. What amounted to practical working control of Big Bell Mines, one of Australia's largest low grade gold properties, was acquired in early 1936, and later that year Smelting obtained leases and options on about fifty gold quartz mining claims near Fairbanks, Alaska.

Properties Mostly in This Hemisphere

Such, in brief, is the story of the recent growth and development of the largest enterprise of its kind in the world. As now constituted, the company owns seven active metal mines—one in Peru and six in Mexico—and leases or partly owns seventeen others in Newfoundland, Canada, Mexico, Australia, Bolivia, Nicaragua and the United States. Its eighteen smelting plants, of which four are in Mexico and one in Peru, have a total annual charging capacity of 1,887,000 tons of lead, 187,000 tons of zinc and 3,670,500 tons of copper. Its seven refineries (one in Mexico) can handle 710,000 tons of lead and 612,000 tons of copper annually. Twelve other plants, spanning the country from Perth Amboy, N. J., to San Francisco, Calif., take care of the company's output of by-product lines and scrap metal products.

All of which sounds like a pretty extensive and complicated set-up. It is, but it is closely knit and efficiently controlled as well. For Smelting is as long on management ability and technical skill as it is on the sort of entrepreneurial courage and foresight that led it into new fields of activity during the worst depression in

history while the rank and file of industry were content merely to hang on and survive.

It is this sort of thing that the experienced investor expects to show up in earnings, and in Smelting's case it has as witness the spectacular comeback from a deficit of $4.96 per common share in 1932 to a profit of $6.85 in 1936. Needless to say, the latter figure was still somewhat below the $8.60 per share earned in 1929 (after adjustment for subsequent capital changes) when copper sold at 22 cents a pound and there were supposed to be two cars in every garage. That 1937 common share earnings of $6.54 were slightly below those of the preceding year was due entirely to an increase in equity capitalization through issue of rights, as net income for the year actually showed a gain. Last year's slump, with its accompanying decline in prices and production of non-ferrous metals, naturally brought a considerable downturn in net which, after preferred dividend requirements, amounted to $3.24 on the common. The trend of profits has again turned upward, however, and for the first six months of 1939 the company earned $1.68 a share against $1.53 for the same period of 1938.

Dividends are currently being paid at the rate of 50 cents quarterly and prospects for a year-end extra are fairly good in view of the likelihood of second half operating results above those of the initial six months. Generally speaking, payments to share holders have followed earnings rather closely, amounting to $2.25 last year, $5 the year before and $4.05 in 1936.

As with all companies in the non-ferrous metals group, Smelting's operating results are subject to rather wide cyclical variation. This is accentuated, moreover, by reason of the leverage provided by dividend requirements on the company's 500,000 shares of $100 par 7 per cent preferred stock. Thus, if this year's net income increases, say, 20 per cent over that of 1938, there will be a 30 per cent gain in earnings available for the common. However, the leverage factor is of less importance now than formerly for Smelting's balance sheet of June 30, 1939, shows that for the first time in its history the company has no funded debt or bank loans outstanding. Aside from the 7 per cent preferred issue, there are no capital claims senior to the 2,191,669 shares of no-par common stock. The company has done a noteworthy job in revising its capital structure within the past few years, having retired in 1937 the former 6 per cent preferred issue, outstanding to an amount of $18,400,000, as well as the $13,550,000 remainder of its bonded indebtedness which had previously been reduced from a total of $36,383,300.

Smelting's treasury position is strong. Not only have all bank loans now been liquidated but, as of mid-1939, cash and Government security holdings alone of $20,586,774 almost equaled current liabilities of $22,516,339 while total current assets amounted to $87,215,219. Inventories were slightly below 1938 year-end levels and it is of interest to note that the company's normal stock method of inventory accounting, coupled with the "last in—first out" principle, helps to minimize the distortion of operating results that would otherwise arise from price fluctuations in the non-ferrous metal markets. By reason of the drastic writedown of 1935, fixed property valuation is probably reasonably conservative despite the situation in Mexico.

And that, incidentally, brings us back to the questions posed in the conversation of our two friends at the beginning of this article. Let's tackle the easier ones first.

To begin with, recent developments in Bolivia and Chile can scarcely provide a basis for serious concern as Smelting's stake in the former country is quite small in relation to its other activities, while in the latter it is virtually negligible. As for Mexico, the picture is somewhat different for the company's interests there are considerable, having been substantially increased over an extended period of years. In its 1938 annual report, the management states that "high government officials have stated in the public press and to our representatives that expropriation of mining properties in Mexico is not contemplated" but that earnings there have been drastically decreased because of "great and unprecedented increases in: (1) labor costs, both direct and indirect, (2) taxation and (3) production costs due to interference by the 'Syndicato' with the management in the operation of the Company's plants."

All that, of course, is now water over the dam and has been fully discounted marketwise. In fact, a much more realistic way of looking at the matter from an investment standpoint is to figure Smelting's earnings "ex-Mexico." In the early part of last year about 18 per cent of the company's profits were from Mexico, and the percentage declined throughout the remainder of the year. However, even using the 18 per cent figure and lopping that much off 1938 net income, earnings available for the common last year would still have amounted to $2.38 (against $3.24 actually reported), a decrease which would appear to have been more than compensated for in the market price of the (*Please turn to page* 583)

Production and Prices

Refinery Output, Including Custom Business*

	Gold (oz.)	Silver (oz.)	Lead (tons)	Copper (tons)	Zinc (tons)
1929	1,461	89,098	545	619	56
1932	1,346	44,966	240	139	42
1936	2,090	151,032	424	317	66
1937	2,019	197,508	479	482	79
1938	2,066	146,421	411	321	66

*In thousands of units.

Prevailing Prices at End of Year

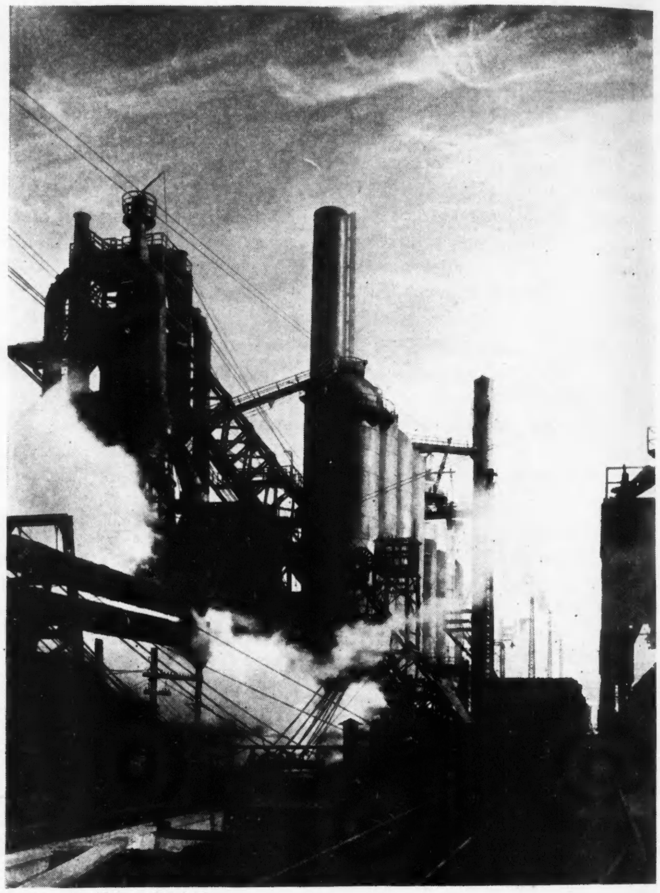
	Gold (per oz.)	Silver (per oz.)		Lead (per lb.)		Copper (per lb.)		Zinc (per lb.)	
		Dom.	For.	Dom.	For.	Dom.	For.	Dom.	For.
1929	$21.67	46.8c	(a)	6.3c	4.5c	17.8c	(b)	5.5c	4.1c
1932	21.67	24.4	(a)	3.0	1.4	4.8	4.8c	3.1	2.0
1936	35.00	77.0	45.0c	6.0	5.9	11.8	11.6	5.5	4.1
1937	35.00	77.0	44.8	4.8	3.2	9.9	9.5	5.0	3.1
1938	35.00	64.1	42.8	4.9	3.0	11.0	10.2	4.5	2.7
1939*	35.00	71.1	(c)	5.1	(c)	10.5	(c)	4.8	(c)

*Current prices. (a) Silver Purchase Act not passed until 1933. (b) Import tax not enacted until 1932. (c) Not comparable due to recent decline in sterling.

Pay Point in Steel

Earnings Belie Profitless-Prosperity Talk

BY HENRY L. BLACKBURN



Courtesy Bethlehem Steel Co.

Blast furnaces at Sparrows Point, Md.

TOUCHSTONE of the industry and favorite plaything of statisticians is the pay point in steel, the rate of capacity at which operations teeter precariously between profit and loss. For somewhat more than a year now, and particularly since the price cutting orgy of last spring, it has been a subject of increasing conjecture and woeful lament. Gnashing of teeth and dire predictions have been the order of the day for, so the story goes, the level of activity at which the steel industry can break even has been raised a good ten points or more. Which, indeed, is rather alarming, if true. But how true is it?

For some time prior to recent developments the steel industry's pay point was generally accepted as about 40 per cent of theoretical operating capacity. This was not a hard and fast figure, of course, as it was apt to vary a few points one way or the other in accordance with minor changes in cost-price relationships and, as regards individual companies, actual pay points were frequently considerably higher or lower. But for the industry as a whole and under anything like normal conditions, the 40 per cent figure provided a generally satisfactory rule-of-thumb gauge of operating results.

About the middle of 1938, however, things began to happen. U. S. Steel, in its traditional role of leader of the industry and acting in accordance with Administration wishes, suddenly revised its pricing system, establishing numerous new basing points and eliminating most basing point differentials. Other companies, though nonplussed and considerably disgruntled, followed suit and the result was a substantial reduction in steel prices all along the line. But misgivings over this development had no sooner begun to subside when, last fall, out and out price cutting reared its ugly head. Orders for substantial tonnages were placed, mostly by the automobile makers, at prices well below previous

Quarterly Profits and Operating Rates Compared*

	1934		1935		1936		1937		1938		1939	
	Net Earn.	Oper. Rate	Net Earn.	Oper. Rate	Net Earn.	Oper. Rate	Net Earn.	Oper. Rate	Net Earn.	Oper. Rate	Net Earn.	Oper. Rate
1st Quarter	d$5,145	41.5	$3,053	50.2	$8,291	54.8	$47,561	85.2	$1,715	31.5	$7,522	54.5
2nd Quarter	13,514	54.9	6,623	43.8	22,397	70.1	55,388	84.5	d2,719	30.7	8,573	50.8
3rd Quarter	d11,933	24.0	3,486	46.3	25,359	71.3	49,528	79.6	d2,489	40.7	....	....
4th Quarter	d7,805	29.3	12,761	54.0	33,808	77.2	9,739	40.6	12,565	55.6	....	....

*Combined net income of four leading companies in thousands of dollars and operating rate of ndustry in terms of percentage of capacity. d—Deficit.

levels. Much of this business was for delivery in the first quarter of 1939 so that earnings for that period, as well as those for the final three months of 1938, were affected.

The industry was still licking its wounds last spring when Detroit again dangled some fat orders under its nose. The temptation to volume hungry steel producers was too great and what happened to prices is still freshly in mind. More than $1 a ton was lopped off *The Iron Age's* composite price in May alone, bringing reductions effected since the middle of 1938 to $6.20 a ton. To make matters worse, there were some sizable concessions below list quotations. It is not known just how much business was placed at the new low prices but, according to informed trade opinion, it was enough to cover the motor industry's needs at least through the current quarter despite earlier introduction of new models this year.

Such is the background of recent widespread bearishness on steels. And it goes without saying that, as far as comparisons with the immediate past are concerned, operations at any stated level, given a fairly stable cost factor, are bound to be less profitable at today's prices than at those of a year and a half ago. But beyond that, is the picture as black as it has been painted? Not according to the record.

Take a look at the accompanying chart of finished steel prices. If the irregular curve which traces their fluctuations over the past decade be compared to a skyline, the tall skyscraper on the right immediately engages the attention. Not only does it tower above all else, but the sheerness of its walls is in marked contrast with the step-like character of the rest of the silhouette. Actually, the 1937-38 hump in steel prices followed closely upon and was of much the same character as the bulge in raw material prices of 1936-37. It was necessarily temporary in nature, arising as it did from an anomalous combination of circumstances which obviously could not have continued in force. It is this consideration that those who now bemoan the fate of the industry have apparently overlooked for, if the freak price situation of 1937-38 is eliminated from the picture and profits versus operating rates over recent months are compared with those for periods prior to 1937, the matter appears in quite a new light.

In the table on the opposite page, quarterly earnings of four leading steel companies are compared with quarterly average operating rates for the industry as a whole over the past five and a half years. It will be seen that profits for the second quarter of 1939, when operations averaged 50.8 per cent of capacity, were below those of the final three months of 1937 when the operating rate was ten points lower. However, carrying the comparison back, they were above those of the first period of 1936 when operations were four points higher and nearly triple the earnings of the initial quarter of 1935 when the industry's operating rate was 50.2 per cent of capacity.

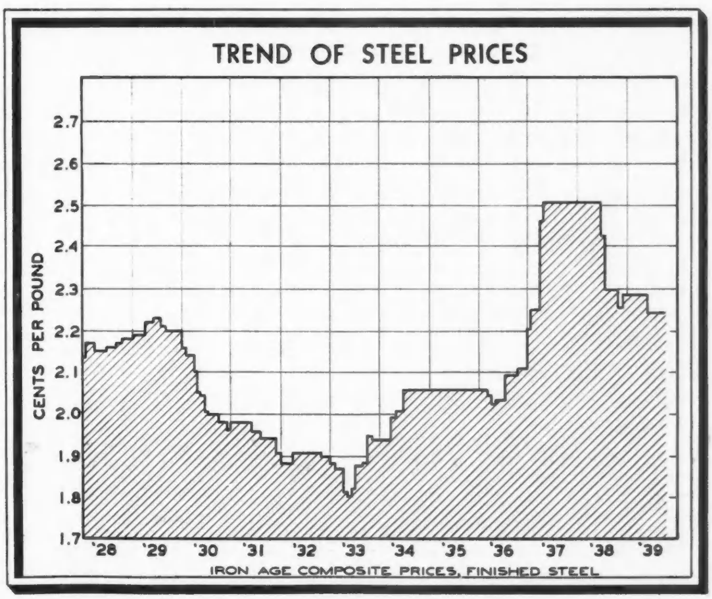
Now, 1935 was a middling good year for the steel makers and 1936 was a very good year, indeed. And if the industry can turn in a better composite income statement at comparable operating levels now than it could then, it is not so badly off after all. In fact, it is altogether likely that the pay point last quarter was little if any above the traditional 40 per cent. But this is not to say that steel is entirely out of the woods.

Outlook Dependent on Price Structure

In the first place it should be noted that very little of the business placed at the demoralized prices of last May was for delivery last quarter. The bulk of it is being delivered this quarter and the price cuts of four months ago will be reflected in this period's earnings reports though the recent steady climb in the operating rate—now around 63 per cent and likely to top 70 within the next month or so—will prove an ameliorating factor. Secondly, though the steel price structure has firmed since spring through elimination of extras and concessions from list, it has yet to be subjected to another major test. Detroit will shortly be in the market again for important quantities of steel. If prices withstand the strain—and the higher level of operations now than last spring is a constructive factor in this connection—the industry should end 1939 and commence 1940 on a very encouraging note; if, on the other hand, the hard-boiled buyers of the motor industry are again able to knock prices down, little or no improvement in earnings would be likely over the next six months.

In either event, however, it can safely be assumed that the relationship of profits to the rate of operations will compare favorably with that prevailing in 1935 and 1936 for, as is readily apparent from our chart, prices are still well above the levels of three and four years ago.

The outlook for steel consumption this fall is definitely encouraging. Tin plate operations are only a few points under the 70 per cent (*Please turn to page 586*)



"Storm Cellar" Stocks and "War Babies"

— Dilemma of Investor Who Bought in 1929

By J. S. WILLIAMS

JUDGING from our mail two considerations are uppermost in the minds of many investors at this time, (1) stocks attractive to hold in the event of a European war and (2) stocks which afford a fair and dependable income.

A European war is no longer a contingency, it is a reality and has, in fact, become a major investment factor which may affect all classes of securities, industries and companies. Following the German invasion of Poland, it was not long before a wavering stock market became a war market, with many of the so-called "war baby" stocks well in the van. Prominent among the stocks which attracted investment and speculative interest, were many of the favorites of World War markets and included the steels, coppers, sugars, textiles and a new comer to the ranks of war issues, the aircrafts.

For the benefit of our readers we have compiled a brief list of "war babies." If this list appears to be an obvious one, it is necessarily so at this early stage and in selecting these issues initial choice has been limited to those companies which not only appear to be potential recipients of sizable war orders but which also might be expected to share importantly in a more normal expansion of general business.

With the income yield obtainable from the best bonds and preferred stocks reduced to a record low figure, the natural corollary of extremely low money rates, substantial amounts of investment funds are being diverted to the better grade common stocks having an impressive background of sustained earnings and dividends. The majority of common stocks which on the basis of their past record qualify as dependable income producing mediums represent companies which by the nature of their business enjoy a relatively high degree of immunity from the cyclical trends in business and industry. Moreover, the resulting element of stability does not necessarily deprive such issues of the factor of potential price appreciation. True, they do not have the same speculative leverage as the shares of companies identified with the cyclical industries, but in a period characterized by improving business and rising stock prices they may be expected to register a fair degree of price enhancement. On the other hand in periods of business and market unsettlement, the characteristic stability of earnings acts as a brake against drastically lowered values. Hence the "storm cellar" designation given to such stocks.

Accompanying this discussion is a representative group of common stocks which, on the strength of their ability to earn and pay continuous dividends, qualify as dependable vehicles where the investment emphasis is on comparative market stability and dependable income. Most of these issues, as this is written, are selling sufficiently below their former highs to suggest that new commitments can be made to good advantage.

Attractive "War Babies"

Issue	Recent Price
Bethlehem Steel	68
International Nickel	49
Du Pont	169
American Smelt. & Ref.	48
Niles, Bement, Pond	62
Sperry	43
United Aircraft	38
Crucible Steel	36
Westinghouse Elec.	105

The 1929 Investor

After reading the article, "Investment Preconceptions Carried Over from 1929," in the August 26 issue, a reader writes as follows: " . . . and I therefore am taking the liberty of sending to you a list of common stocks of which I am the very much disillusioned owner. All of these stocks are owned outright and were purchased for the most part in 1929 after the first sharp break in the market under the impression that I was acquiring some real investment bargains. Alas, for my lack of judgment. I have been able and willing to hold the list practically intact for almost ten years, confident in the belief that inasmuch as all of these shares represented established and important companies their value would some day be

"Storm Cellar" Stocks for Income

Issue	Dividend	Recent Price	Yield %
Commonwealth Edison	1.60	29	5.5
Safeway Stores	3.00	44	6.8
Household Finance	4.00	68	5.9
Sears Roebuck	3.00	76	4.0
J. C. Penney	3.00	88	3.4
General Foods	2.00	45	4.4
American Can	4.00	99	4.1

restored to at least some semblance of my original investment. Several times during the past ten years my hopes have been raised only to prove false, or at least premature. My patience even yet is not exhausted but certain conditions have recently arisen which may add materially to my personal obligations, and which seem likely to create a need for additional income. Even aside from that, however, I would be interested in knowing whether or not my list could be altered in any way which might under reasonably favorable market conditions expedite the recovery of a greater portion of my original capital."

If it is any satisfaction to our reader, he may be assured that he is not alone in his present dilemma. Many investors are still holding stocks acquired in 1928, 1929 and 1930 at high prices. Our reader, however, appears to have been fortunate in not having been seriously pressed either for capital or investment income during the intervening years.

The reader's list, which accompanies this discussion, shows an original investment of some $220,000, worth at the present time about $81,540, a capital depreciation of 62 per cent. Present indicated annual income amounts to $2,460, or about 3.0 per cent on the present market value of his list, and little more than 1 per cent on the original investment. Current income is computed conservatively and quite probably will be augmented somewhat by additional dividends later this year and year-end extras in several instances. Even so, the income return is but little more than could be obtained on the highest grade corporate bonds, and average bond yields are practically at the lowest level in history.

Granted that up to the present time at least investment income has not been a consideration with our reader. Nevertheless, this department has long had a strong leaning toward common stocks which "pay off." For one thing a company which has a long and uninterrupted record of dividend payments to its credit endows its common stock with a hallmark of quality. It may be argued that one does not invest primarily in common stocks for income and dividend prospects are a secondary consideration. It may be further argued that 10 per cent price appreciation in the course of a year is a far better return than the most generous dividend.

This is all very well but as a practical investment procedure it doesn't always work that way. A stock will enhance in value only on the prospect of increased earnings. Larger earnings imply larger dividends. Dividends are the stockholder's tangible return on his investment. A 10 per cent capital appreciation may overshadow a 5 per cent dividend return, but unless the investor cashes in this profit it may be supplanted by a 20 per cent loss the following year. Moreover, dividend paying common stocks may show fully as satisfactory results from the standpoint of long term price appreciation. And from a strict investment standpoint, there are many common stocks which paid dividends, and good dividends, right through the lean years of the depression, while on the other hand not a few bonds and preferred stocks fell by the wayside.

All of which leads up to the point that we feel our reader's list could be improved at the expense of at least some of the non-dividend stocks. Bearing in mind that increased income may be needed in the near future, we would favor the elimination of commitments in Radio Corp., New York Central, Western Union, Atchison, Southern Pacific and Aluminum Co. of America. In suggesting the sale of these issues, the writer is well aware that all of them have more or less speculative promise. Leverage, a potent speculative factor, is particularly prominent in the rail issues. None of these issues, however, is in line for early dividends and if our reader finds the problem of income pressing they should be sold in favor of 100 shares each of General Motors, General Foods and International Nickel and 50 shares of St. Joseph Lead. All of these issues represent companies of established industrial prestige and boast an excellent record of dividends. All of them may confidently be counted on to share prominently in any extension of the current uptrend in business and earnings.

In addition to the foregoing issues, this department would also favor the elimination of Gillette Safety Razor, General Refractories, Standard Oil of N. J. and Gulf Oil. Increasingly keen competition (*Please turn to page* 587)

Shades of 1929

	Price Paid	Original Investment	Recent Price	Present Investment	Indicated Income*
50 shs. Gillette Safety Razor	92	$4,600	6	$300	$30
200 shs. Radio Corp.	74	14,800	5	1,000	...
100 shs. J. C. Penney	110	11,000	88	8,800	300
100 shs. N. Y. Central	183	18,300	13	1,300	...
50 shs. Western Union	206	10,300	23	1,150	...
100 shs. Bethlehem Steel	96	9,600	60	6,000	50
100 shs. Atch. Topeka & Santa Fe	223	22,300	25	2,500	...
100 shs. Southern Pacific	110	11,000	13	1,300	...
200 shs. Montgomery Ward	83	16,600	50	10,000	300
80 shs. Chrysler	102	8,160	80	6,400	320
50 shs. Allied Chemical	230	11,500	164	8,200	300
100 shs. General Refractories	71	7,100	24	2,400	25
120 shs. Anaconda	94	11,280	25	3,000	120
75 shs. Aluminum Co. of Amer.	211	15,825	118	8,850	...
50 shs. Amer. Tel. & Tel.	213	10,650	163	8,150	450
100 shs. Cons. Edison (N. Y.)	104	10,400	31	3,100	200
120 shs. Pacific Gas & Elec.	88	10,560	32	3,840	240
50 shs. Standard Oil of N. J.	72	3,600	41	2,050	†25
100 shs. Gulf Oil	130	13,000	32	3,200	100
Total		$220,575		$81,540	$2,460

*Based on dividends declared to date, where rate is not fixed. † Plus stock.

Are the Oils at Bottom?

The Industry Has More Than Once Found Correction in Price Chaos

BY WARD GATES

THE oil industry is again grappling with its recurring problem of too much oil—an embarrassment of riches which has repeatedly thrown the entire industry into turmoil and taken a heavy toll of profits. The industry presents the paradox of being favored by a steadily increasing consumption of its finished products but whose leading corporate units in the first six months of this year showed average earnings some 30 to 35 per cent lower than in the same months a year ago. A situation as untenable as this was destined inevitably to precipitate a crisis. Only the fact that the industry was experiencing its summer peak of consumption prevented a showdown from materializing sooner, and even so, the situation came to a head some six weeks before the normal seasonal letdown.

Internal chaos and crumbling prices are not a new experience for the oil industry and the present situation differs from previous ones only in the precise course of events culminating in lower prices and drastic efforts to correct an unwieldly balance between supply and demand. The present plight of the industry is the result of its fundamental problem, the lack of sane regulation of production.

As on other occasions, however, overproduction of crude oil cannot be held solely responsible for the most recent disruption, although it was the decline in the price of mid-continent crude below $1 a barrel for the first time in several years which focused attention on serious weaknesses in other divisions of the industry. Aggregate production of crude oil over the past five months, comprising the period of heaviest consumption of gasoline, has averaged only about 2 per cent more than in the same period last year. During the same months of this year crude prices were firm at an average of about 10 cents a barrel under the levels prevailing through most of 1937 and 1938.

Comparatively speaking, crude prices were not high, nor were they apparently threatened by excessive supplies. Actually, however, in relation to gasoline prices crude prices were so high as to leave little or no profit for the refining division. Price cutting and competition exerted severe pressure on gasoline prices and constituted a formidable obstacle in the path of any attempts to adjust such prices to a level commensurate with crude costs. Adherence to proration schedules required many of the leading integrated oil units to purchase a portion of their crude supplies from other sources, thus adding to their costs and restricting profits. This situation has prevailed for about two years. To rectify it, the only alternative to higher gasoline prices was lower crude prices. Both courses were attempted in that succession. One failed, the other was followed by the most drastic shutdown of crude production in the history of the industry.

Last June, led by Consolidated Oil, a number of large refiners advanced the retail price of gasoline one-half cent a gallon. This attempt to restore a profitable relationship between crude and refined prices was shortlived.

Failing to sustain a rise in gasoline prices, Consolidated Oil, again taking the lead, announced in mid-August a drop of 20 cents a barrel in the price at which it would purchase crude oil. Several other large refiners followed suit. This time refiners got action, and plenty of it.

The Texas Railroad Commission promptly announced that all oil wells in the State of Texas would be shut down for fifteen days, beginning August 15 and invited other oil producing states to take similar action. This invitation was accepted by five other states—Oklahoma, Kansas, Louisiana, Arkansas and New Mexico—all of

Crude Oil and Gasoline Prices

	Crude Oil (a) Prices ($ per bbl.)		Gasoline Prices (b) (cents per gal.)		Margin Between Gasoline and Crude Price (cents per gal.)	
	1939	1938	1939	1938	1939	1938
Jan	.96	1.16	4.80	5.25	2.51	2.49
Feb.	.96	1.16	4.78	4.92	2.49	2.16
March	.96	1.16	4.79	4.81	2.50	2.05
April	.96	1.16	4.82	4.81	2.53	2.05
May	.96	1.16	4.87	4.81	2.58	2.05
June	.96	1.16	4.93	4.81	2.64	2.05
July	.96	1.16	4.93	5.06	2.64	2.30
Aug.	.76	1.16	4.93	5.06	3.12	2.30
Sept.	....	1.16	....	4.99	....	2.23
Oct.	....	1.01	....	4.84	....	2.43
Nov.	....	.96	....	4.84	....	2.55
Dec.	....	.96	....	4.81	....	2.52

(a)—Okla.-Kan. 33-33.90. (b)—Average at refining centers.

Triangle Photo

An artery of the oil industry. Laying eight-inch pipeline to carry oil from the field to the refinery.

which announced the shutdown of oil wells for periods of fifteen days, until further notice. These states account for 68 per cent of domestic petroleum production. Such arbitrary and concerted action on the part of these states was without precedent and as consequence practically the entire oil industry was thrust into chaos.

Officially, the action of the mid-continent oil states was in the interest of conservation. That this was the actual motive, however, is open to question. It is probably nearer the truth to say that the shutdown order was prompted as a retaliatory measure against the "oil monopoly" and calculated to restore the former level of crude prices to the benefit of independent producers within the boundaries of the acting states. In 1931, when the great East Texas field was brought in and threatened to flood the country with oil, crude prices fell as low, in some instances, as 10 cents a barrel. At that time the Governor of Texas closed all the oil wells in the area, placing them virtually under martial law, and keeping them closed for about three weeks until prices more nearly normal were restored. Although the circumstances which led up to the most recent cut in crude oil prices were much less serious than in 1931, the defensive action of the mid-continent oil states was much more drastic.

In justice to the oil industry, it can be said that demands on the part of large refining interests for either higher gasoline prices or lower crude prices were entirely warranted.

The failure of higher gasoline prices to hold beyond a brief period last summer was due to the pressure of sizable stocks of gasoline and the heavy movement of crude oil at prices below posted levels. At the close of the 1938 selling season, gasoline stocks totaled 71,500,000 barrels, or 10,500,000 more than was considered normal at the start of the period of restricted consumption. Aided, however, by an open winter, consumption was well sustained and total gasoline stocks of 87,100,000 barrels at the beginning of last April were less than 10 per cent in excess of normal, and were down 5,200,000 barrels from the level of April, 1938.

Working against adequate reduction in refined stocks by increased consumption this summer, refinery operations were stepped up and have averaged about 8 per cent higher than a year ago. As a result, gasoline stocks in mid-August, with only six weeks of active consumption remaining, totaled 75,859,000 barrels compared with 74,498,000 at the same time last year. According to petroleum interests, total gasoline stocks on September 30, next, should not be more than 65,000,000 barrels to restore inventories to a healthy condition. On September 30, 1937, gasoline stocks were more than 5,000,000 barrels above the normal figure, and at the end of September last year they were some 10,000,000 barrels higher. Obviously then, refiners, or at least some of them, have failed to exercise proper restraint. With both refining and retail distributing capacity excessive, resulting competitive conditions superimposed on abnormal supples of gasoline placed the gasoline price structure under severe pressure.

Low Price Crude Upsetting

It hardly seems reasonable to suppose that a great industry would long permit itself to function on a money-losing basis, particularly as the solution of its difficulties appears to lie within its own hands—restrict refinery operations, reduce inventories and restore prices to a profitable level. Such a solution, however, would require co-operative action not possible to obtain under the conditions which have prevailed this year, even were it possible in defiance of anti-trust laws.

Aggravating the difficulty in making any upward price adjustment in gasoline, have been the increasingly large quantities of crude oil being sold below posted prices. Early in August a survey revealed that in Louisiana, Texas and Arkansas there were 218,000 barrels of oil being sold daily at from 5 cents to 25 cents a barrel below the posted price. In Illinois 68,000 barrels were being sold daily at 27 cents below the established price, while in Kansas and Oklahoma about 35,000 barrels were being sold at 20 cents below the market. Although this under-priced crude represented only about 10 per cent of the total production, (*Please turn to page 584*)

Uncovering Special Situations

Three Sound Issues Whose Promise Remains to Be Adequately Discounted

BY EDWIN A. BARNES

To the careful investor, trend is an important factor in the selection of securities. In the hey-day of the early twenties, the impressive records of many railroad companies were at first glance taken for a guarantee that the future would be bright. Certain considerations were thus often over-looked, with heavy losses as a consequence. What companies, then, deserve attention by virtue of their constantly proved ability to grow? Many are large and well known already. Many on the other hand have as yet escaped active public attention, though their records are noteworthy. For this discussion three more of these smaller companies have been selected. They are all well established leaders in their field, and are operating near to, if not at, a record high. R. G. Le Tourneau and Iron Fireman Manufacturing are connected with separate phases of the building industry, and are, therefore, in a position to benefit from the uptrend in evidence. Parker Rust Proof has as its most important customer the automobile industry, but in spite of this speculative aspect, has made an excellent record. All three are interesting from the standpoint of expansion. More complete analyses follow:

R. G. Le Tourneau Incorporated

Recent Price 28 **Dividend $1.00**

	Total Sales (in millions)	Net Earnings (in millions)	Earnings per Share	Price Range High Low
1933	$.38	$.11	$.24	N. A.
1934	.93	.32	.72	N. A.
1935	2.00	.59	1.31	N. A.
1936	4.39	1.36	3.03	N. A.
1937	5.67	1.26	2.81	39½—13½
1938	6.25	1.41	3.14	32 —13

R. G. Le Tourneau has established itself as a leading manufacturer of all types of earth-moving machinery. In recent years its products, which include steam shovels, scrapers, bull-dozers, angle-dozers, etc., have met with increasing demand in air field construction, highway building, landscaping, and leveling projects. The company has an agreement with the Caterpillar Tractor Company whereby all distribution, both domestic and foreign is handled solely through that company's extensive sales organization. Le Tourneau may, therefore, concentrate on research and improvement work, unhampered by the heavy expense that the maintenance of its own sales offices would entail. Recent developments include a tractor and a sugar cane harvester. The tractor, known as the Tournapull, has only two wheels, and is used to drag huge levelers. The harvester, a result of intensive study of the cane growers' problems, combines the reaping, cleaning, and chopping of the sugar stalks into a single continuous operation.

One of the company's important customers is the Government, for a great deal of machinery is needed to carry out the vast public works program. In all probability there will be a continued demand for the type of equipment that Le Tourneau produces, since the most conservative estimates indicate that reforestation and irrigation has only been started. This work is recognized as vitally important to the country, and is, therefore, not so dependent on the political picture.

Ownership of the company rests entirely with the holders of 450,000 shares of common stock. The 225,000 shares outstanding in 1934 were increased to the present number by a 100 per cent stock dividend the next year. Current assets at the end of 1938 were $2,853,765, or well over twice current liabilities of $1,005,211.

Earnings of Le Tourneau, far from being adversely affected by the generally poor business conditions that prevailed throughout a large part of last year, moved to a new high of $3.14 per share. This is a far cry from the $.47 per share reported in 1933, and indicates the strength of the upward trend in the company's operations. Current returns show a considerable increase for the present year also, with $2.00 per share earned during the first six months against $1.49 for the same period last year. Dividends of $1.00 regular and $.25 extra were paid last year, and $.75 has been paid or declared to date. It is likely that an extra of around $.50 will be paid in the final quarter in addition to the usual $.25 disbursement.

With the continued improvement in the domestic picture, and the 30 per cent increase in foreign business, which incidentally amounted to about 18 per cent of the total for last year, the outlook for Le Tourneau seems entirely favorable. Currently selling around 28 or midway between this year's high of 34 and the low of 22, the stock is conservatively priced in relation to earnings, and appears to merit attention as a good prospect for income and appreciation.

Parker Rust Proof

Recent Price 16 — **Dividend $1.00**

	Gross Profit (in millions)	Net Earnings (in millions)	Earnings per Share	Price Range High—Low
1932	N. A.	$.26	$.88 adj.	*54—14½
1934	$1.05	.69	1.70 adj.	*74 —43¼
1935	1.43	.95	2.21 adj.	*80 —40
1936	1.58	1.08	2.51	32½—23
1937	1.78	1.18	2.75	29⅝—12
1938	1.03	.56	1.33	21½—13

*Before three for one split in 1936.

In spite of the fact that Parker Rust Proof is a specialty company, and ordinarily would be classified as a more speculative venture, it has the distinction of being one of the few companies with a record of profitable operations right through the depression.

The company owns valuable patents covering the Parker and Bonderite processes for the manufacture of rust-proofing chemicals. More than 400 companies are licensed under these patents to employ Parker methods, chemicals, and equipment in the rust-proofing of their output. The company's principal customer is the automobile industry, and though motor car production was 47 per cent less last year than the year before, Parker's business from that source was only 35 per cent less, reflecting a substantial gain in new accounts. Other manufacturing lines served are refrigeration, air-conditioning, steel stampings, and hardware. Agencies are maintained in various European countries, and patents are either in force or pending in all industrial nations.

A staff of over fifty chemists seeks constantly to improve the rust-proofing processes and widen the company's scope. Notable achievements in this direction have been a recent reduction in the time required for most methods from over an hour, to a matter of seconds, and the development of a process for applying a paint-holding and corrosion-resisting coat to zinc surfaces.

The capital structure of Parker Rust Proof is simple; only 2,727 shares of $10 par 7 per cent preferred stock are outstanding in addition to 429,498 shares of common. The preferred stock may be called in 1946, and the company has already signified its intention of doing so, meanwhile offering to purchase all shares on a 3 per cent basis to the call date. In 1934 the jobbing business was sold to Parker Wolverine, a new company, for a $200,000 4 per cent note due on or before March, 1944, and all the preferred stock of the company. This was later paid out to stockholders of Parker Rust Proof at the rate of one share for each share held. There is naturally close co-operation between the two outfits, both occupying the same plant in Detroit.

Parker has shown a profit for every year since its incorporation in 1929. By 1934, earnings had exceeded the 1930 figures, and in 1936-1937 were almost three times as great, or $2.51 and $2.75 per share respectively. Coincident with the sharp drop in automobile production in 1938, earnings declined to $1.33 per share, but thus far this year have recorded a strong comeback with a net for the first six months of $1.06 per share. Dividends of $1.00 were paid last year, and $.75 has already been paid or declared this year. With a seasonal upturn in business usual in the latter half of the year, an extra dividend might quite possibly be declared in addition to the regular $.25 disbursement for the final quarter.

At 16 the stock is selling on a conservative price-earnings ratio, and seems to have discounted to a considerable degree the uncertainties of the times. Therefore, though it must naturally be considered as a speculation, in the light of the encouraging domestic picture, Parker Rust Proof would appear to offer good possibilities for appreciation and income.

Iron Fireman Manufacturing Company

Recent Price 17 — **Dividend $1.20**

	Total Sales (in millions)	Net Profit (in millions)	Earnings per Share	Price Range High—Low
1932	$1.87	$.08	$.27	7 — 2¾
1934	3.19	.52	1.76	19⅜— 8
1935	4.38	.62	2.02	30 —13½
1936	5.81	.77	2.16	31 —22½
1937	6.54	.71	1.98	27 —12½
1938	5.66	.61	1.69	19 —12½

In 1923 two Portland, Oregon, contractors took over a small local iron works, and with it the rights to a clumsy automatic stoker. This was speedily improved, and found a ready market as the "Iron Fireman." Taking its name from its principal product, the Iron Fireman Manufacturing Company has become the world's largest producer of automatic stokers and automatically fired furnaces. The principle of the stoker is to convey the coal mechanically from the bin to the furnace, and feed it in under the fire instead of dumping it on top. This greatly reduces ashes and smoke, and gives far more heat. Though business was good, it consisted mainly in selling the stokers as attachments for older furnaces, and in 1938, therefore, the company made a bid to capture a share of the new construction work by bringing out an oil burner designed for domestic use. The same year it also expanded into the air-conditioning field, and now offers a complete line of thermal equipment. The company distributes through more than 1,500 dealers to whom it has made available a 6 per cent installment financing plan.

In the simple capital structure of Iron Fireman, the 359,260 shares of common stock are not outranked by either funded debt or preferred stock. Current assets at the end of last year were $3,274,084 against current liabilities of only $407,466 or a ratio of nearly eight to one.

The company has always shown a profit at the end of the year. With the expansion of expenditures for home remodeling and construction, earnings have advanced steadily from the low of $.27 earned per share in 1932. In spite of the slowing down of activities in 1938, earnings of $1.69 make a good showing in comparison with the 1936-1937 per share figures of $2.16 and $1.98 respectively. With sales thus far this year approximately 8 per cent ahead of last year, and a seasonal upturn usual for the last months of the year, final returns should be encouraging. The usual quarterly dividends of $.30 per share have already been declared for the full year, and there is a good possibility for an extra payment.

At present levels of around 17, the stock of Iron Fireman Manufacturing Company offers a fair return, and with the continuance of present building conditions, should be in line for noteworthy expansion in a more favorable market setting.

As the Trader Sees Today's Market

The Present Short Interest—Relative Size and Market Influence

BY FREDERICK K. DODGE

For the first time it has become possible to gauge accurately not only the size of the short interest and the amount of short selling in the market but the amount of short covering as well. It is possible to judge the effects of the selling and of the covering on the action of prices, to compare professional (member) selling with that of the public for timing, and to form a fairly good opinion of the old controversy—is short selling a beneficial or harmful influence?

There is no doubt that bear raiding was a large factor in market action back in 1930 and 1931. Huge blocks of stock thrown at leaders at psychological moments were calculated to wreck confidence and break down the whole price structure. These operations were frequently carried on by traders who knew of weak holdings which could be dislodged by hammering at certain issues. If a man was known to hold a large block of XYZ on rather slim margin it was a simple thing to offer XYZ at the market until he received a margin call impossible to meet. Then, on the forced selling this occasioned, the bears could cover; more often than not a number of such raids going on simultaneously together with a market falling of its own weight were enough to keep the decline in motion, so that the covering might be postponed until long after it could have saved the day. Gunning for stops in the specialists' books was another lucrative but damaging pastime of the bears.

Selling No Longer Raiding

All this has been changed today. In the first place, margins are far larger on original commitments and rigidly maintained thereafter. Brokers' loans indicate the minute part of total values now carried on margin. In the second place, short selling itself is strictly regulated. No such sales are allowed except when the last price change in an issue has been upward. It is manifestly impossible to knock down the price of a stock or to sell short when the market is breaking. Margin requirements on short sales have also been raised to 50 per cent of the price of the issue, and all information as to specialists' books including the location of stop-loss orders is carefully guarded.

One effect has been to cut the short interest down far below former levels, although other factors undoubtedly helped in reducing it. Seven and a half years ago the short position on the Stock Exchange amounted to 3,536,000 shares, today to 481,599 shares. Only once since records have been kept has the short interest been smaller than at the end of July, and that was last January.

On the face of it, the rallying power of the market has been cut by the reduction in these figures to somewhere near the minimum point. Net covering purchases during several months of 1932 were larger than the total short interest now. However, there is an important offsetting factor. Although as many shares are listed, the size of the market has shrunk because participation in it is so much smaller. This is another way of saying that the market is thin, that 500 shares of Steel or Telephone bought today have as much effect on price as several thousand had in years past.

The short interest is therefore plotted on the accompanying chart not in absolute monthly figures but in its ratio to daily volume, as a convenient short-cut to gauging its potential effects on prices. A ratio of two to one indicates that shorts would have to buy every share of stock offered during two average trading sessions at that particular period in order to even out their positions. A ratio of one to one shows that the shorts have outstanding commitments just about equaling a day's trading volume. Studied from this angle the figures are seen to have retained some of their importance.

The most recent occasion when short-covering had a powerful market influence was in July. At the beginning of the month the position amounted to 651,906 shares and at the end of the month to 481,599, a reduction of 170,307 shares, all of which represented purchases and most of which were doubtless made more or less unwillingly as prices advanced. It is significant also to realize that this buying was fairly well concentrated in the leaders where its psychological benefit was greatest. For instance, 28,342 shares of Chrysler were bought by shorts over and above their sales during the month, 29,734 shares of U. S. Rubber, 22,320 shares of U. S. Steel, and 21,157 shares of Commonwealth Edison.

A year ago the covering movement was even more important in market action. Net purchases by the shorts were 293,400 shares in June, 216,500 in July, 104,200 in August, and 191,100 in September, or over 805,000 shares

in four months of an advancing market. The short position in Chrysler dropped from 102,000 on May 31 to 20,000 at the end of the year.

Well-Timed Trades

The figures give the impression that shorts cover in rising markets and tend to expand their positions on declines. If that were so, then their trades would tend to widen the swings in both directions, rather than exert the stabilizing influence claimed for them. The long term record, however, is in conflict with that of recent months. The years 1932 and 1933 were marked by consistent short covering with the position reduced to 713,000 shares at the end of 1933. A jump occurred in January, 1934, but then followed reductions until the latter half of the year as the market declined. Gradual market gains were accompanied by increases in the short position through late 1934 and all of 1935, with the largest position at the end of February, 1936. Some covering took place on the slump that then set in, but as the market turned upward again the shorts sold stock until by the end of February, 1937, their position reached 1,435,000 shares, largest since the first half of 1933. All through this period the shorts tended to sell at the high points, helping to prevent the market from over-reaching, and to buy at the low points, presumably holding prices from sinking still lower.

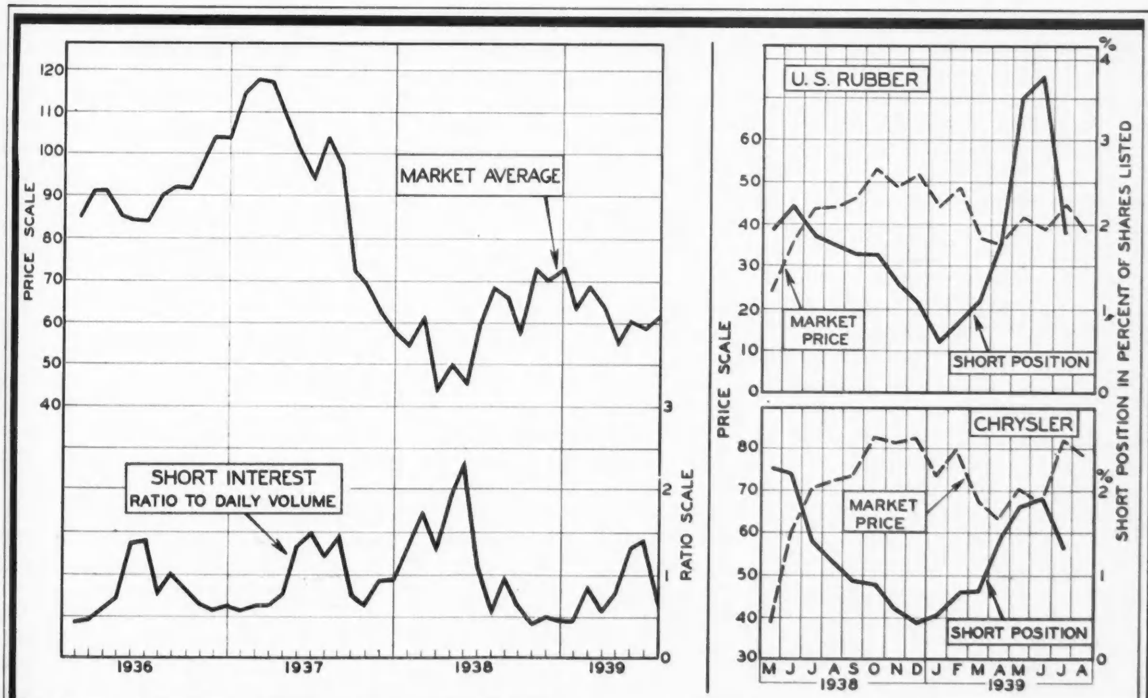
Figures now being released by the S E C show daily short sales in total and for various classes of members of the New York Stock Exchange. Specialists find it necessary in the course of maintaining a market in their issues to take the short side frequently during the day, with few of these trades left uncovered at night, therefore it is easy to overemphasize the share of members in short-selling activities. As professionals they go in and out of the market all day long, but only a small fraction of their trades affect the figures in the short interest collected at the end of the month.

In the month of June 516,840 shares of stock, not including odd-lots, were sold for short account, of which members accounted for 332,715 shares or 64.4 per cent. In July 667,310 shares were sold short, 500,525 or 75.0 per cent by members of the Exchange. It will be remembered that June was a month of downtrend in prices and July one of uptrend, so it can be said that more short selling took place on a rising trend than on a falling, and that professional selling was responsible for all of this increase at a time when such selling would be most logical and least harmful.

The short selling in both months, however, was accompanied by an even larger total of short covering. Since the short position decreased by 15,898 shares in June, this must be added to the 516,840 shares sold short, indicating purchases of roughly 532,738 shares during the month for the short account. In July the 170,307 share decrease in position added to the 667,310 shares sold gives a total of 837,617 for covering purchases. In both months the net effect was to help the market, conditioned by the actual days and hours of the trading on both sides of the market.

June and July Sales

The relationship of member selling to total sales bears out the claim that expert short selling is beneficial. On days in early June when the market was getting nowhere professional selling dropped down close to half the total, rising only in periods of short advances. Around the 19th, 20th and 21st (*Please turn to page* 588)



Rated Higher Than In 1929

Libbey-Owens-Ford Earnings in Strong Recovery and Further Long Term Growth Is Indicated

BY RICHARD COLSTON

THE list of companies whose stocks sell above their 1929 highs is not an extended one, as most investors know. An even greater rarity, though, is a company whose growth possibilities are so highly valued that its stock sells above 1929 levels when its earnings are smaller. Such a distinction has come to Libbey-Owens-Ford.

The contrast in trend between this company and its best customer, the automobile industry, tells the story. In 1929 sales of automobiles totaled \$3.4 billions; in 1937 they amounted to about \$2.8 billions, which was not a bad comeback effort. But L-O-F, with the help of new acquisitions and developments it is true, began breaking its 1929 records in 1933, doubled its former net income in 1935, and then substantially exceeded that level in the two following years. No better proof of growing power could have been asked.

By early 1938, however, profits had vanished, and the first half of the year resulted in an operating loss. The automobile industry let the company down badly, and its next best customer, building, was of little help. General Motors and Chrysler made money in that half, but not L-O-F. The trend in favor of the glass company as compared with its customers had apparently changed —certainly it was in question. The doubt was quickly modified, though, when L-O-F brought in its following quarterly reports. In the final three months of 1938 the company set a new earnings record for the quarter, of \$1.40 per share. Since then the improvement has continued, with first half results equal to \$1.06 a share in contrast to the loss of a year earlier. The company has again shown itself capable of new records when permitted by conditions in the automobile industry to attempt them.

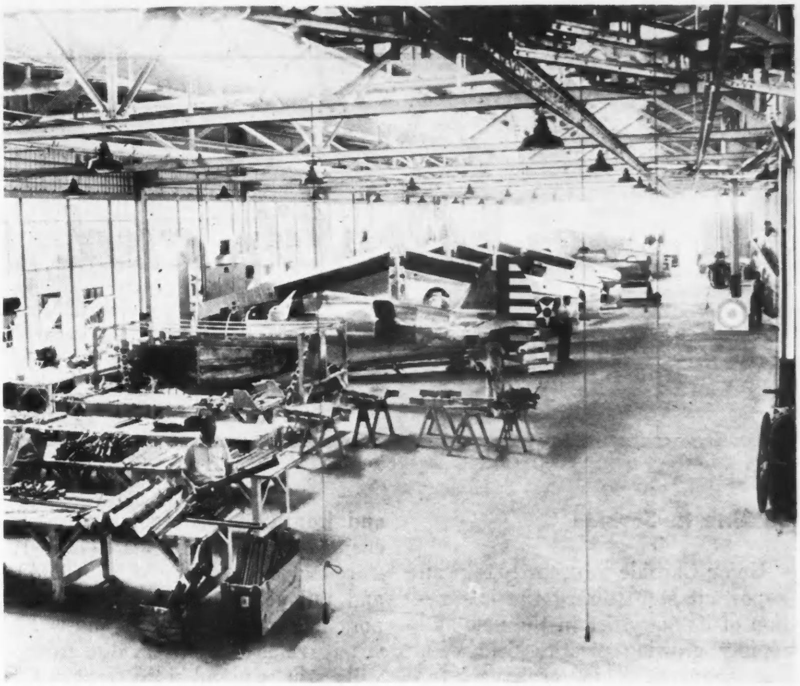
Increasing the safety of automobiles has always been a major objective of producers, and shatterproof windshields and windows were an early development. The first safety glass, though, was far from perfect. It was not elastic enough to withstand severe shocks, vision was poor, and moisture soon caused discoloration by getting between the layers. Even so it was an instant success. Demand thrived on the natural preference of the public, the prompt acceptance by the automobile industry of improvements with sales appeal, and the added fact that in many states safety glass was soon required by law. Now, working together with Union Carbide & Carbon, du Pont, and Monsanto Chemical, Libbey-Owens-Ford has developed a vastly superior type of safety glass.

Safety Glass Sandwich

The key to the new product is a thin sheet of vinyl resin plastic. A plate of the "sandwich," consisting of the vinyl resin filler between two panes of glass, will stand up under the impact of a steel ball that, dropped from the same height, will smash right through ordinary safety glass. Shatter resistance at all temperatures has been raised far beyond present levels. At the zero points often encountered during winter driving, the new glass is fully four times stronger than the old. The elasticity of the vinyl product is such that a sheet of it may literally be rolled up like a carpet without any of it breaking off. Over 40% thinner than the cellulose acetate interlayer now used, the new filler cuts down refraction too, and permits much clearer vision. Furthermore, since it is waterproof, there can be no discoloration or distortion.

Libbey-Owens-Ford has a contract with General Motors, made in 1931 and later extended to September, 1942, to supply all its glass requirements. The new safety glass will, therefore, be standard equipment on all the 1940 models of that corporation. The company also serves Packard, Graham-Paige, Studebaker, Reo, and Ford, and with the example of the industry's leader to follow, it is probable that they too will feature the new product. Manufacturing costs for both types run about the same.

The leading producer of automobile glass and window glass, L-O-F also stands second in the plate glass field. Together with Pittsburgh Plate Glass it shares, in fact, approximately 85 per cent of the automobile glass, 70 per cent of the window glass, and 93 per cent of the plate glass production in the United States. The company's plants are located in Shreveport, La.; Toledo and Rossford, Ohio; Charleston and Parkersburg, West Va.; and Ottawa, Ill. The latter plant employs a new continuous flow process for which the American rights were purchased last year. No longer melted in pots and cast intermittently in single blanks, the glass flows in a ribbon of maximum commercial width through a 350-foot lehr, and is then cut into blanks for grinding and polishing. The time and labor saving under this method is considerable. All plants are well located in relation to raw materials and market. Cheap fuel is obtained for nearby divisions from huge natural gas fields in West Virginia and Kentucky which are held under joint lease with the Owens-Illinois Glass Company. Sales offices are maintained in most principal cities.



Courtesy Libbey-Owens-Ford

Aklo glass windows in the new assembly plant of Curtiss Aeroplane protect workers from glare of direct sunlight. Note absence of sharp shadow lines.

The technical laboratories and development department of L-O-F have recently been centralized at Toledo. The new office building of the Charleston plant was constructed for the most part from "Glastone," a Libbey-Owens-Ford building material of glass and concrete. It is cheaply produced, and is reputed to have the load bearing strength of brick or stone. The list of commercial uses for glass has been growing amazingly. We use it for structural and decorative purposes in buildings; we make furniture from it and spin it into cloth as soft as silk; we use it to insulate heat, sound, and electricity. L-O-F has through its constant research been a leader in this development that is continuing apace. A few of the latest additions to the Libbey-Owens-Ford list are:

Thermolux, a decorative building product made of two pieces of clear glass with a center mat of finely spun colored glass. The light coming through it is softly diffused, giving striking color effects. It excludes solar heat and sound, and is more and more in demand for offices.

Vitrolite, a structural glass available in opaque colors for storefronts, countertops, kitchen and bathroom walls. Builders emphasize its beauty, and the ease with which it is kept clean.

Tuf-Flex, a specially tempered glass seven times stronger than ordinary plate, and particularly adapted to marine usage in deckhouses, portholes, and windscreens because of its ability to withstand severe thermal shocks.

Extrudalite storefront metal, a new form of sash designed to hold firmly yet cushion plate glass windows, thus reducing breakage. Combined with other products it enables L-O-F to supply complete storefront units.

In addition to developing wider markets for these products, the company is engaged in a vigorous campaign to popularize the use of double window sashes. These had heretofore been regarded only as storm precautions, and their installation was naturally confined to localities subject to violent winds. Now, however, the emphasis placed on air-conditioning as a requisite to solid comfort in the home has created a demand for the double panes as insulation. The extra glass used and the special frames needed might conceivably result in worthwhile contributions to earnings.

Much of the research work is made possible by the strong financial position of the company. Current assets at the end of last year were $13,933,333, of which $5,719,433 was cash, against current liabilities of only $2,608,439. Substantial charges are made against earnings to cover property depreciation and depletion, and production methods are kept up to date. Capital structure is simple. With neither funded debt nor preferred stock outstanding, ownership rests entirely in the hands of the holders of 2,508,380 shares of common stock. An issue of $7 preferred stock was redeemed in 1929, and $9,000,000 in 5 per cent notes that were issued in 1931 to finance the purchase of a plant from General Motors were called in 1933, leaving the present capital outline.

Earnings have covered a wide range in their general upward trend. The only deficits reported by the company were $.47 and $.13 per share respectively for the years 1931-1932. Since then profits have moved up steadily to an all time high in 1937 of $10,518,918 or $4.19 per share. As previously mentioned, the company came back strongly in the last half of 1938, to wipe out a loss and show a net for the year of $1.57 per share. This upswing has been *(Please turn to page 584)*

For Profit and Income

Bakelite to Carbide

Union Carbide will shortly take an important step toward the integration of its activities in the new and rapidly growing plastics field with the acquisition, in exchange for 187,500 shares of its own common stock, of Bakelite Corp., one of the country's oldest and largest makers of plastic molding powders and resins. The combination has all the earmarks of a "natural" since Carbide's synthetic organics division has for some years been an important producer of anhydride, methanol and numerous other plastic raw materials and is currently developing a number of new lines which Bakelite is well situated to exploit.

Industry Under Arms

The Neutrality Act notwithstanding, it appears that our industry will be called upon to bear arms for Europe, now that that continent has involved itself in holocaust. After the outbreak of the last war, advances recorded on the domestic business front varied widely from one sector to another and the same was true in the stock market. From June, 1914, to the 1915 highs, largest gains were scored by the machinery stocks which rose 458%; next were autos and trucks, up 452%; then steel and iron (293%), wool and woolens (244%), chemicals (117%), shipping and shipbuilding (85%) and rail equipment (78%). With possible exception of wool and woolens, it seems likely that these groups will again be found in the front ranks of a war bull market. Likely recruits are the aircrafts, oils, vegetable packers and machine tool makers.

AMERICAN SNUFF

Recent Price: 60 — **Dividend Rate: $3**

This is our regular fortnightly investment suggestion to those interested primarily in income, safety of principal and sound investment standing. Each number of the Magazine contains one such selected issue.

This company is engaged solely in the production of snuff, turning out about 11,000,000 pounds annually. Principal brand names are "Garrett," "Honest" and "Dental," and chief market is the rural South.

Earnings are characterized by their stability, varying over the past decade between a high of $4.25 per share in 1929 and $3.13 in 1937. Last year's figure was $3.32. The company does not issue interim statements but it is believed that this year's operating results are running ahead of 1938.

Annual dividends of $3 a share (75 cents quarterly) plus an extra of 25 cents have been paid every year from 1931 to date. Company's president expressed the opinion at this year's stockholders' meeting that the present dividend rate could be relied upon.

As of the end of 1938, the company's financial position was very strong, $14,896,635 of current assets, including cash of $2,560,172, comparing with only $929,606 of current liabilities. Capitalization consists of 35,989 shares of $100 par 6% non-cumulative preferred stock and 434,100 shares of $25 par common.

On the Bargain Counter?

The strike at its Cumberland plant has put a damper on Celanese's profit prospects this year, but now that a settlement appears to be in sight, observers are wondering if the shares are not considerably undervalued at current levels around 22. Demand for acetate rayon, of which Celanese is the largest domestic producer, remains strong and, prior to the company's labor difficulties, 1939 earnings estimates ran as high as $4 a share.

Finance Companies Optimistic

Commercial Credit and Commercial Investment Trust, whose first half earnings this year were under those of 1938, anticipate better results from here on. The encouraging outlook for automobile sales is a major factor and it is pointed out that earlier introduction of new models will spur time sales this fall. Installment paper purchases have also been rising sharply in reflection of the sizable year-to-year gains being recorded in refrigerator, oil burner and washing machine sales. From a longer term angle, the finance companies are keeping an interested and nervous eye on the inroads that commercial banks are making into the installment credit field though encroach-

ment of the latter is still far short of anything like serious proportions.

Add New Products

Goodyear's fire and stain resistant rubber flooring to compete with linoleum. * * * American Chicle's "Adams Lorals," an antiseptic chewing gum purported to destroy up to 90% of germs in the month. * * * Mathieson Alkali's synthetic salt cake which, when commercial production begins in November, will render this country independent of German controlled foreign supplies. Principal consumer is the Kraft paper industry which has been importing 50% of its requirements.

Cigarette Makers' Outlook

The principal cigarette manufacturers stand to benefit by lower material costs next year if recent indications of sharply lower tobacco prices are borne out when the regular marketing season gets under way. This year's savings over last are estimated at about $1,000,000, but the industry's raw material costs in 1940 may well be further cut by as much as $10,000,000, judging from price trends of both flue cured and burley leaf. Whether this amount or any substantial part of it will be reflected in higher earnings depends largely on the extent of revisions in advertising appropriations, always a dominant profit factor.

Developments in Companies Recently Discussed

Du Pont's business is understood to be at satisfactory levels and the chances are that earnings from chemical operations this quarter will not only substantially better the 70 cents a share earned a year ago, but also top the $1.02 earned in the third quarter of 1937. Including General Motors dividend income to amount of 67 cents a share, it seems likely that overall earnings for the current period will be in excess of $1.75 per share. Company is going ahead with its 6 per cent debenture refunding plans and it is understood that holders will be offered $4.50 preferred in exchange at a rate of not less than 1¼ shares of preferred for each share of debenture stock.

Cleveland Graphite Bronze has developed a new method for binding bronze to steel for bearings and bushings which has met with encouraging acceptance in trade circles. The company's recently reported first half earnings amounted to $2.03 per share, as contrasted with 1 cent a year ago and only 96 cents for the entire year of 1938. Full year 1939 estimates place earnings in the neighborhood of $4 a share which, in point of profit, would rank the current year second only to 1937 when $4.65 a share was reported.

Hecker Products' net income for the fiscal year ended June 30, 1939, was equivalent to $1.21 per common share as compared with 53 cents per share for the preceding year. The improvement was recorded in the face of substantially lower sales, a greater proportionate decrease having been effected in costs and expenses. The company disposed of its unprofitable soap business last January and also enjoyed improved business in its breakfast food and flour lines. Hecker expects to invest a part of its cash resources, which are in excess of working capital needs, in the acquisition of new lines that would supplement its present activities, but has been forestalled thus far by tax problems involved in transactions of this sort.

Sharp improvement in operating results of Safeway Stores—$2.96 per common share for the first half of 1939 against $1.30 a year earlier—has led the company to consider the possible refunding of its $13,300,000 of 4 per cent debentures. Retirement of the three preferred issues with dividend rates ranging from 5 per cent to 7 per cent may also figure in the refinancing plan. Common share earnings this year are estimated at about $6 which would compare with $4.02 for 1938.

June quarter operations of Certain-teed Products resulted in a profit of 7 cents per common share against a deficit of 41 cents the preceding quarter and a deficit of 1 cent in the second quarter of 1938. Company's financial position at the mid-year was satisfactory.

Legal Equities

Time was when legal investments for trust funds were limited strictly to fixed obligations. But the law has now caught up with reality in one state at least for the Chancery Court of Newark, New Jersey, has issued a list of common stocks in which trustees will be permitted to invest. The thirty-six blue chips included are Monsanto, Union Carbide, du Pont, General Electric, General Motors, Corn Products, American Can, International Nickel, Standard Oil of New Jersey, Texas Corp., National Steel, Liggett & Myers B, Reynolds Tobacco B, U. S. Tobacco, American Telephone, Consolidated Edison, Public Service of New Jersey, Eastman Kodak, International Harvester, Procter & Gamble, Sherwin-Williams, Union Tank Car, American Chicle, Beech-Nut, General Foods, J. C. Penney, Sears Roebuck, Commercial Credit, Commercial Investment Trust, Household Finance, International Business Machines, Allied Chemical, New Jersey Zinc, Homestake Mining, Phelps Dodge and Bristol-Myers.

Market Gossip

Second grade rail bonds, recently quoted close to their lowest levels of many years, are distinctly undervalued in the opinion of not a few bond traders who point to smart earnings gains being recorded by the carriers. * * * Margin requirements will not be changed as a result of war abroad, the Street hears from Washington. * * * It's an ill-wind, etc.—Western Union did a land office business in foreign cables during the crisis. On the other hand, special news broadcasts cost NBC and CBS a pretty penny. * * * Quite a little buying noticed in Lockheed at recent prices around 21 on the strength of $3 earnings estimates this year.

Correction

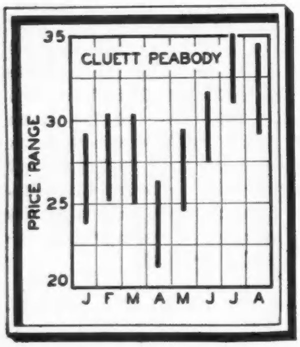
In the Dividend Forecast section of our issue of August 12, net of Schenley Distillers for the first six months of 1939 was incorrectly stated as 13 cents a share. Half year profit was actually 78 cents, against 58 cents for the first half of 1938. Second quarter profit was 13 cents a share, representing a sharp decline from the 48 cents earned on the common in the second quarter of 1938.

5 Moderate Priced Stocks

Offering Promise of Large Percentage Gains

Selected by THE MAGAZINE OF WALL STREET STAFF

Cluett, Peabody & Co.



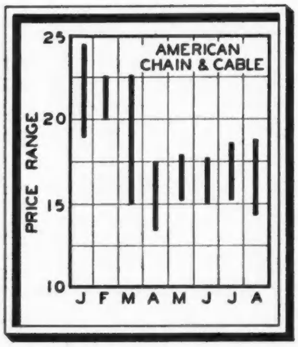
Cluett, Peabody & Co. in the first six months of the current year showed earnings of $1,266,171, the largest profit for that period in more than twelve years. Particularly significant, in the light of these results is the fact that normally the last six months produce the bulk of the company's yearly earnings.

Cluett, Peabody & Co. is chiefly identified with the well-known "Arrow" brand of collars, shirts and neckwear. In recent years, however, the company has opened up for itself important new avenues of revenue through development of its "Sanforizing" process for pre-shrinking fabrics. This process is applicable to all kinds of cotton and linen goods. It is understood that it is employed by domestic cotton mills producing more than 65 per cent of the nation's cotton goods output. A basic royalty is paid to the company for all goods sanforized. Notwithstanding the substantial measure of success which has already met the company's efforts in developing this process, the opportunities for continued expansion in its use are excellent. Income from the company's sanforizing division this year is at record high levels and despite the fact that consumer demand for the company's textile products ran about 12 per cent ahead of a year ago, in the first six months, the chief factor in the excellent showing for that period was the earnings derived from the sanforizing process.

Applied to the 677,844 shares of common stock, earnings in the first half of the current year, after allowing for dividends on 33,990 shares of $7 preferred stock, were equal to $1.69 a share. This compared with 29 cents a share for the common stock in the first six months of 1938. For all of 1938, the company earned $1.28 per share, comparing with 72 cents per share in 1937. Earnings in 1937 were sharply restricted owing to the necessity for absorbing substantial inventory losses. For all of 1939, the company may well make its best showing in recent years. Orders for textile products have been running from 20 to 40 per cent ahead of a year ago and there is every indication that contributions by the sanforizing division will continue substantial. With finances comfortable, the directors may well see their way clear to increasing the present 25-cent quarterly dividend or paying a generous year-end extra.

Recently quoted around 30, the shares appear reasonably appraised marketwise and are sufficiently below their current high of 35⅛ to suggest that speculative purchases may be made to good advantage around these levels.

American Chain & Cable



American Chain & Cable Co. is the largest manufacturer in the world of a complete line of chains, including the well-known "Weed" tire chain. In addition, however, the company produces various automobile accessories, as well as cables, hoists, compressors, and other machine tools employed by a wide variety of industries. A number of important patents are owned by the company which are leased to other manufacturers. In addition to fifteen domestic plants, the company has a Canadian subsidiary and two subsidiaries operate in England.

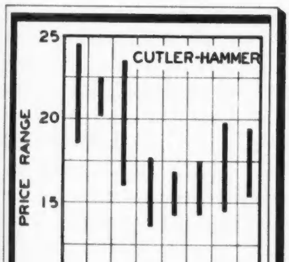
Although the company, in the three years subsequent to 1930 reported deficits, under anything resembling normal conditions, good earning power has been shown. Following a deficit, after preferred dividends, equal to 14 cents per share for the common stock in 1934, earnings were shown equivalent to $1.46 per share for the common stock in 1935; $3.15 in 1936; and $2.79 in 1937. In common, however, with the great majority of industrial enterprises, sales receded sharply last year, declining nearly $10,000,000, while net profits dropped from $3,042,075 in 1937 to $841,169. After payment of preferred dividends last year, earnings were equal to 56 cents per share on 987,436 shares of

common stock outstanding. Aided by the increasing tempo of general business activity this year, the company in the first six months was able to show earnings almost as large as in the entire 1938 year. Net for this most recent period totaled $665,274, compared with $155,193 in the same period a year ago. After payment of preferred dividends, net applicable to the common stock was equal to 53 cents per share for the first half of 1939. In the first six months of 1938 earnings were equal to only one cent a share.

During 1938 the company retired all of its outstanding serial notes aggregating $760,000 and the only capital item ahead of the common stock at the present time is represented by 57,384 shares of 5 per cent convertible preferred stock. Current assets at the end of last year, including nearly $2,500,000 cash, amounted to $11,159,291, while current liabilities amounted to only $1,722,125.

Following dividend payments of 15 cents per share in the first two quarters of this year, directors gave tangible recognition to the company's improved earnings prospects and the most recent quarterly dividend was at the rate of 25 cents a share. Having ably demonstrated its ability in the past to develop substantial earning power under favorable conditions, the company is again favored by conditions susceptible of increasing improvement in the months aread. Recent levels for the shares around 17 compare with a current high of 24½ and a low of 13½, and the shares may be included among the more attractive lower priced issues.

Cutler-Hammer



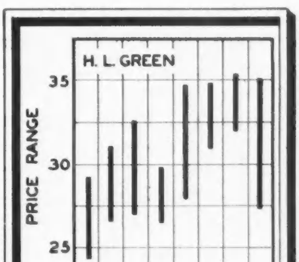
Current improvement in the business and earnings of Cutler-Hammer, Inc., was recently signalized by the resumption of dividend payments on the company's common stock with a declaration of 25 cents, the first payment since December, 1937.

The activities of Cutler-Hammer embrace the manufacture of a widely diversified line of electrical-control devices, including heating regulators, rheostats, magnetic clutches and brakes, safety switches and various wiring devices. A subsidiary makes high voltage fuses, switches and protective equipment for transmission systems. In its field, the company is the foremost factor. Customers are drawn mainly from industrial fields, such as steel, textile, paper and other manufacturing activities. It is obvious, therefore, from the nature of the company's business, that volume and profits are geared closely to the state of general industry, a condition which in the past has resulted in widely fluctuating earnings. From the 1929 peak to the depths of the business depression, earnings experienced a sharp recession and losses were reported in the years 1931 to 1933, inclusive. Recovery, since the beginning of 1934, was rapid and extended until mid-1937, when an abrupt reversal set in. The peak of the company's earnings in recent years was reached in 1936 when net totaled $1,314,773. Profits in 1937 of $1,274,469, although only slightly under the 1936 level, were achieved mainly as the result of the substantial volume of business carried over from the previous year. Earnings fell off in the third quarter of 1937 and in the final three months a deficit was shown. In each quarter of 1938 operations were conducted at a loss and, unlike the experience of most industries, the company's loss in the final quarter was larger than in the initial three months. For all of 1938, the company reported a net loss of $307,347, compared with earnings equal to $1.93 a share for the capital stock in 1937 and $1.99 per share in 1936.

It is important to note, however, that in the past the company's sales have usually shown a tendency to lag behind the early stages of business improvement. This reflects the general disposition on the part of the company's customers to defer necessary purchases of new equipment until the recovery cycle is well advanced. Also characteristic of the company is the rapidity with which orders are likely to be booked when favored by buyers' confidence in the further extent of recovery. In the first quarter of the current year, Cutler-Hammer reported earnings of $56,702 and profits for the six months ended June 30, last, totaled $243,413. Applied to the 659,998 shares of stock which comprise the company's entire capitalization, earnings in the most recent period were equivalent to 36 cents per share. In the corresponding months a year ago, a loss of $75,760 was shown. Aided by an extension of gains in general industrial activity, the company's earnings in the final six months promise to record further important gains. Rearmament activities should provide an important source of orders.

While frankly speculative, the shares would appear to possess the type of background which would lend considerable attraction in a period of cyclical business recovery. Recent levels around 17 compare with a current high of 24½ and a low of 13⅝. In 1938 the shares sold as high as 29¼.

H. L. Green Co.



Operating a chain of variety stores, H. L. Green Co. functions both as a holding and operating unit. Of the 132 units comprising the company's domestic chain at the close of 1938, a substantial number are located in the states of New York, New Jersey and Pennsylvania. A subsidiary, Metropolitan Stores, Ltd., operates a chain of 59 units located throughout Canada. Products carried include a wide variety of items such as toilet goods, jewelry, candy, hosiery, electrical supplies, hardware, housefurnishings, etc., priced between 5c and $1.

The company's record in recent years has been one of

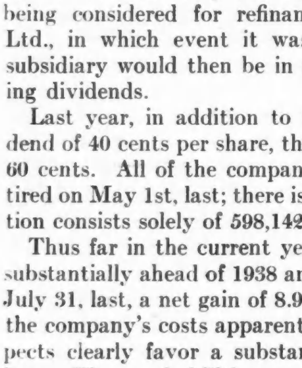
steady growth. In 1933, sales totaled $23,418,477, from which point they have gained consistently and attained a peak of $33,458,752 in the company's fiscal year ended January 31, 1938. For the fiscal period ended January 31, last, sales declined 3.2 per cent and totaled $32,398,266. Due, however, to the sharp deterioration in public purchasing power which occurred in the first six months, the showing last year may be regarded as quite satisfactory and compares most favorably with that of other large chain store units.

Net income for the fiscal year ended January 31, 1939, totaled $1,714,649 or the equivalent of $2.83 per share on 598,142 shares of common stock, after allowing for preferred dividends. This compares with a net profit of $1,839,958, or $3.02 a share on the common stock in the preceding fiscal year. Neither in 1938 or 1937 was the consolidated net income of Metropolitan Stores, Ltd., included in the company's earnings. In the most recent fiscal period the latter company reported earnings of $405,215, compared with $479,464 in the previous year. It has been officially intimated that arrangements are being considered for refinancing Metropolitan Stores, Ltd., in which event it was thought likely that this subsidiary would then be in a position to consider paying dividends.

Last year, in addition to the regular quarterly dividend of 40 cents per share, the company paid an extra of 60 cents. All of the company's preferred stock was retired on May 1st, last; there is no funded debt; capitalization consists solely of 598,142 shares of common stock.

Thus far in the current year sales have been running substantially ahead of 1938 and for the six months ended July 31, last, a net gain of 8.9 per cent was shown. With the company's costs apparently well under control, prospects clearly favor a substantial gain in current earnings. The probabilities are that better than $3 a share may be earned for the common stock. Not only does this prospect suggest the possibility of another generous year-end extra dividend, but the shares, currently quoted around 30, would appear to be a justifiable choice for income and price appreciation.

Armstrong Cork



Net sales of Armstrong Cork in the first six months of the current year were not only substantially larger than in the corresponding period of 1938, but were also somewhat better than in the first half of 1937. Moreover, with the conclusion of the Spanish civil war, a potentially serious hazard to the company's business has been removed. The company is one of the largest domestic consumers of cork and has, in addition to depots in southern Spain, six factories in northern Spain devoted to the manufacture of cork, cork board insulation, and other cork products. The company's total investment in Spain amounts to approximately $1,900,000.

Activities of Armstrong Cork embrace the manufacture and sale of linoleum, felt-base floor coverings, various types of insulating and building materials, cork stoppers, metal caps and closures for bottles and jars, cork products for the shoe industry and other industrial uses. Of these, however, the most important is the manufacture of floor coverings. To that extent, therefore, the company's sales and profits are closely aligned with the rise and fall of public purchasing power, together with the volume of new residential construction and home renovation.

In the years 1930 to 1932, the company sustained losses aggregating about $9,500,000. In those years, however, abnormal inventory losses were responsible for about 50 per cent of the deficit. Of recent years, 1936 has been the best. Net sales in that year of $39,799,975 produced net income of $5,277,535, or the equivalent of $4.66 per share for the common stock. Sales in 1937 expanded to $42,759,445, but increased operating costs cut net income to $5,157,887, or the equivalent of $3.66 per share. In both 1936 and 1937 the company paid dividends totaling $2.50 per share on the common stock.

Last year the combination of reduced sales and somewhat higher costs cut heavily into profits and net income of $1,150,796 was equivalent to 70 cents per share for the common stock, as compared with net of $5,167,887 in 1937. Notwithstanding the sharp decline in earnings last year, financial condition was unimpaired and current assets as of June 30, last, including $7,626,376 cash and Government securities, amounted to $25,683,808 while current liabilities were $2,574,492.

The company's sales in the first six months of this year increased nearly 40 per cent over the corresponding period a year ago and net earnings of $1,586,337 compared with $285,093 in the first half of 1938. After payment of dividends on 52,994 shares of 4 per cent preferred stock, earnings this year were equal to $1.05 a share on 1,410,644 shares of common stock. A year ago common stock earnings were equivalent to 20 cents per share. 1938 dividends on the common stock aggregated 75 cents per share and thus far in the current year payments have been maintained at the rate of 25 cents per share quarterly. However, with the assurance imparted by substantially improved earnings, larger dividends would appear to be imminent. Recently selling at 39, the shares are quoted substantially under their current high of 58 and only slightly above their low of 33½. Acquired with a view to holding over the medium term, the shares promise satisfactory results in the form of increased dividends and price appreciation.

Sperry Corp.

On June 30, last, manufacturing subsidiaries of Sperry Corp. reported unfilled orders at the highest level in the history of the company. Orders on hand, in fact, were sufficient to assure a continuance of a high rate of production well into 1940. Moreover, current business has not reflected the substantial measure with which the company may be expected to participate in the $2,000,000,000 national defense program now being unfolded in the United States. (*Please turn to page 585*)

Answers to Inquiries

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American Rolling Mill Co.

I have 200 shares of American Rolling Mill common which I bought at 32. What are its prospects for the Fall? Second quarter earnings amounted to 13 cents a share but I see that the company's president, Mr. Verity says the lower prices of steel sheets may offset the advantages of increased volume. Am anxious to know what you think.—G. F., Salt Lake City, Utah.

While earnings of American Rolling Mill are still unsatisfactory, nevertheless improvement has set in and operations for the first six months of 1939 resulted in a profit of 23 cents per share, which compared with a deficit of 61 cents per share in the corresponding period of last year. The company is one of the principle manufacturers of sheet steel, with the automobile manufacturing industry being one of its major outlets. In addition, makers of agricultural machinery, electrical equipment, stoves and refrigerators, road-builders, etc., are important takers of the company's products. Thus it is expected that shipments during the final half of the year are likely to show improvement, but all of this improvement may not be carried through to net due to orders having been placed at lower prices. Higher levels of operations in the steel industry over the coming months, is, however, expected to improve the price situation somewhat, so that the longer term outlook points towards more profitable results. Revenues from licensing of the company's process for continuous method of rolling sheet is not of near term importance as income from this source is large only during periods of high steel activity. Financial position continues to be very sound, the balance sheet for March 31, 1939, disclosing current assets of $49,324,463, including cash of $8,942,945, as against current liabilities, of $7,538,469. While, as pointed out above, operations should be more profitable over the coming months, dividends on the common stock are not in prospect in the near future due to arrears on the preferred stock, which totalled $4.50 per share on June 15, 1939. While the stock may be somewhat slow to respond marketwise, we feel that longer term holdings should not be disturbed at this time.

National Distillers Products Corp.

Do you consider National Distillers primarily an income stock or does it also hold substantial profit possibilities? I bought 100 shares at 32. Would you say the stock is underpriced at current levels? Can you throw some further light on the company's export plans to which it is devoting a part of the proceeds of its recent debenture issue?—T. L. deM., Sea Island, Ga.

National Distillers Products Corporation reported earnings for the first half of 1939 only moderately below those for the corresponding period of 1938, being equivalent to $1.03 per share this year as against $1.36 per share last year. It is believed that unit sales of the company's well-known brands, such as Mount Vernon, Old Taylor, Old

EFFECTS OF WAR

Prolonged fighting in Europe would have a direct influence on most major American enterprises. Boeing Airplane, for example, could expect to add to its already increased backlog of orders, although Government regulations on shipments to combatants would be an important factor. Kennecott Copper has mines on both the American continents, certain to play a large part in supplying one of the vital war materials. National Distillers can hardly gain through continued war, and Ward Baking's profit margins will suffer if wheat goes into a steep uptrend. Steel makers including American Rolling Mill are likely to feel the influence of war orders less than that of domestic business conditions; the same thing is true of Electric Storage Battery. Most chemical companies find their products in demand during wartime, but Mathieson Alkali is more dependent on basic industries than on any such specialized outlet.

Overholt and others, held up relatively well and the decline in earnings was probably the result of the keen competition which is characteristic of the industry. National Distillers has always followed a policy of aggressive advertising to hold shifting consumer preference and continuation of this policy should result in earnings for the full year being only moderately below the $3.35 reported for 1938. Working capital position of the company continues to be very strong and stocks of whiskey are ample. Gradual expansion of the organization's export business has moderately interesting longer term profit possibilities. The primary attraction in this issue will be the satisfactory and secure yield which is afforded as market action of the stock is likely to be characterized more by relative stability. Where income is unimportant, we recommend retention of this issue.

Mathieson Alkali Works, Inc.

Please give me a current appraisal of Mathieson Alkali of which I hold 200 shares bought at 37½. Also tell me if you think the construction of the new salt cake plant and the company's increasing activity in the Southern paper field will have an early effect on earnings. Would you advise purchasing additional shares at current levels?—Mrs. V. M. W., Bar Harbor, Me.

Potash and caustic soda are the major items produced by Mathieson Alkali and are sold largely to such industries as the rayon, glass, textile, soap and petroleum refining industries, with chlorine, also an important product, being used extensively by the paper and textile industries, with sizable amounts going to municipalities for water purification purposes. Added to these, certain specialties such as bicarbonate of soda, baking powder and synthetic ammonia are important to the company from a profit standpoint. Volume so far during the current year is believed to have compared favorably with that for the corresponding period last year, though net earnings were moderately lower, being equivalent to 31 cents per share for the first six months of 1939 as compared with 34 cents per share for the same period of 1938. Moderately lower prices and somewhat higher costs probably accounted for this decline. The company's plants are strategically located with regard to materials and markets. The new plant at Lake Charles, Louisiana, has not yet become an important profit producer but has good longer term possibilities in the territory in which it operates. It is at this plant that the company is pushing its manufacture of salt cake which, it is believed, has good sales possibilities in the paper making industry. Over the near term, earnings will probably improve though they may not reach the $1.01 per share reported for the full year 1938. Thus it cannot be said that the present $1.50 dividend is assured, but in view of the company having been generous in the past, in regard to disbursements, and the strong financial position, probabilities point to its continuance for the time being, at least. At present prices, it would not seem that the stock is fully discounting the optimistic longer term outlook. While we would not at this time recommend additional purchases, we feel that retention of your present holdings would be advisable.

Ward Baking Co.

Please advise what I should do about 50 shares of Ward Baking "A" I bought at 19. I understand cake sales have shown considerable improvement. Do you think the stock this fall will sell at or near the price I paid for it? A friend does not share my view that it may be advisable to retain this stock. What do you think?—Mrs. L. W., Philadelphia, Pa.

While Ward Baking Co. is among the leading domestic bakers of bread, the company produces a wide variety of cakes and other sweets goods upon which profit margins are normally relatively high. Since major operations are concentrated largely in industrialized sections of the East and Middle West, any change in public purchasing power and employment tends to exert a direct influence upon cakes and other fancy goods demand.

During the current year, the company has had two factors in its favor, namely, greater industrial activity and employment, as well as low ingredient costs. Competition has been and likely will remain a restrictive influence from a profit standpoint, however, and it has been largely due to this factor that the company has been unable during recent years to reattain any substantial portion of its pre-depression earning power. In the period for the 27 weeks ended July 8, 1939, net income was below that of a year earlier and the earnings on the 7% preferred amounted to only 21 cents a share, against $1.46 a share during the comparable period of last year. Nevertheless, indications are that the year as a whole will show but little change from last, when $3.25 a share was recorded on the 7% preferred stock. The latter is outstanding in the amount of 255,808 shares and unpaid accumulated dividends total approximately $28 a share. Thus the company's class "A" stock is quite effectively removed from participation in earnings for some time ahead, although in consideration of the prevailing low prices for the stock in the market, and the relatively favorable prospects for its sales volume, we would be inclined to favor further holding for the present. If economic recovery continues, it may well be that arrangements can be arrived at with a view to clearing arrears on the preferred and paving the way for distributions to holders of the junior equities in which event the class "A" stock should do considerably better in the market. We do not, however, anticipate earnings gains over the near term sufficient to support a price level such as you have in mind and retention would be advised only with a view to long range potentialities.

Boeing Airplane Co.

What are the prospects of Boeing advancing to 35 at which level I bought 150 shares? I understand this company's bombers and clipper ships have been received favorably both by Army officials and private companies. In your opinion, does this company's outlook indicate an early resumption of dividends?—C. M., Boise, Idaho.

For several years after the formation of the company in 1934, Boeing Airplane showed advances in earnings, but heavy development expenses have prevented the company reporting growing and sustained profits lately. Boeing reported a loss of $183,550 for the first six months of 1939, and though there is no direct comparison available, a loss of $35,975 was reported for the twelve months ending in June of 1938. Principle business of the organization is domestic. Unfilled orders, largely

for military planes, amounted to $13,031,641 on June 30, 1939, and would seem to assure a high rate of operations for some months to come. The company is an important supplier of military planes but has lately regained a more satisfactory competitive position in the commercial field. While volume is important, development expenses may continue to have a restrictive influence on earnings' growth. The financial position of the company is satisfactory, the latest balance sheet disclosing assets about twice those of liabilities. Since that time heavy bank loans have been reduced and the working capital position is thus more favorable. Earnings, in spite of charges, are expected to be somewhat better over the coming months as deliveries, it is believed, will be about four or five times greater than those last year. While improvement may be slow and somewhat erratic, we believe that retention at these levels would be the advisable course to follow with a view towards better quotations over the longer term.

Kimberly-Clark Corp.

Would you recommend holding 60 shares of Kimberly-Clark purchased at 40? Is this company likely to suffer due to increased competition in book papers from Southern slash pine producers? Recent earnings of $1.00 per share are encouraging but can this improvement be maintained throughout the third and fourth quarters?—W. E. K., Cleveland, Ohio.

Considering the generally unsatisfactory conditions which have obtained throughout the paper industry for a number of years, earnings record of Kimberly-Clark Corp., has been remarkably stable. The production of book papers is the company's principle activity, although rotogravure, newsprint and numerous paper specialties are also produced. Much of the company's book paper business is handled on a contract basis with approximately fifty important magazine publishers and while advertising lineage and circulation are important volume determinants, the contract method of selling does provide a stabilizing influence. Moreover, plants have been maintained in excellent physical condition through plowing back of earnings for a number of years and costs have accordingly been held within rigid bounds which should minimize any possible future effect of such competition as you mention. Newsprint production is handled through the controlled Spruce Falls Power & Paper Co., which supplies a number of important newspapers, including the New York Times. In the specialty division, such nationally advertised products as Kotex and Kleenex are manufactured and while competition here has increased and lowered profit margins, prospects for increasing sales remain satisfactory. In the report of the company for the six months ended June 30, 1939, a profit of $1,263,581 was shown, equal, after preferred requirements, to $1.98 a share on the common, against $1,009,336, or $1.45 a common share the year before. Finances have been maintained in excellent condition and since prospects indicate moderate improvement in the earnings' picture, the company should be able to maintain the $1.00 annual dividend rate uninterrupted, with added extras from time to time. In consideration of the company's excellent past record and satisfactory financial position, we recommend maintenance of your long position with a view to dividend payments and price appreciation in the market when general conditions improve.

Philip Morris & Co., Ltd.

What do you think of Philip Morris at the present time? I paid 130 for 50 shares in 1938. Should I purchase more at current levels or just sit tight? While I am favorably impressed with the company's recent showing, I am a little concerned by the imposition of recent sales taxes on cigarettes.—Mrs. B. R., Buffalo, N. Y.

Sales and earnings of Philip Morris have expanded rapidly in each year since 1933, when the company introduced its "English Blends." Sales of this particular brand have been showing regular monthly increases, with continuation of this trend probable over the coming months, though rates of increase likely will taper off somewhat. Besides the "English Blends" the company's brands include "Marlboro," "English Ovals," "Paul Jones," and such smoking tobaccos as "Revelation" and "Bond Street," although the smoking tobaccos provide only a small portion of total revenue. Late in 1938, the company entered into an agreement to act as sole distributor for the new "Dunhill." The effect of this new popular priced brand on earnings is not yet known, but its possibilities are interesting. Profit for the fiscal year ending in March of 1939, was the highest in the company's history, being equivalent to $7.50 a share on the common stock, which compared with $7.27 per share in the preceding year, after adjustments to reflect the 50% stock dividend in the latter part of last year. Retailing at slightly higher prices than most popular priced brands, "English Blend" may be at something of a disadvantage due to recently imposed sales taxes, but it is believed that should the taxes slow down sales, that prices will be reduced somewhat, though this is not expected to have any greatly adverse effect on earnings. Financial position of the company is very sound, and though current liabilities were featured by sizable notes payable at the end of the fiscal year, these notes have been reduced since that time. Dividends will likely continue at about present levels and we feel that retention for both income and at least moderate appreciation from these levels would be advisable.

Great Northern Railway Co.

Would you classify Great Northern Ry. preferred as a promising issue? Holding 115 shares bought at 35¼ I am encouraged by the recent strength shown in company operations and shipping volume but have wondered a little about the $337,000,000 in funded debt and prior liens. Is this debt likely to have an adverse effect on the preferred shares?—F. X. O'R., Hollywood, Calif.

Revenues of Great Northern Railway Co. in the first half of the cur-

(*Please turn to page 583*)

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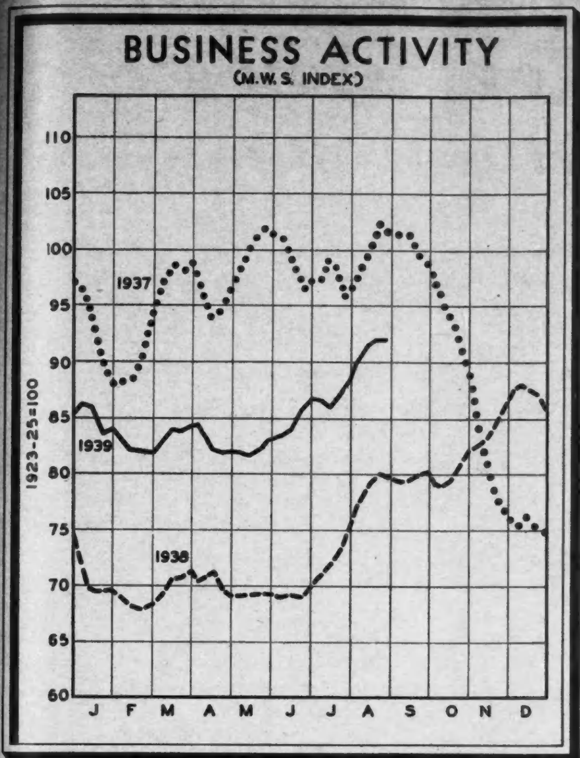


CONCLUSIONS

INDUSTRY—Production reaches temporary peak.

TRADE—Sales by producers, wholesalers, and retailers hold well above last year.

COMMODITIES—War dominates commodity markets.

MONEY AND CREDIT—Banks cooperate in preventing financial disruptions.

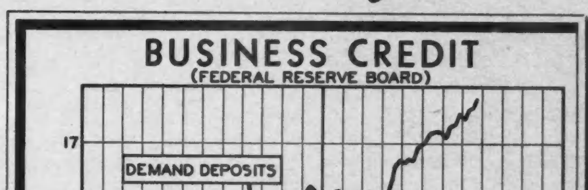
The Business Analyst

With exception of a sharp rise in the seasonally adjusted index of Steel operations, most of the component industries entering into our Business Index have reported somewhat less than normal expansion during the past fortnight, and in consequence there is an evident flattening out in the curve which probably foreshadows a comparatively short period of consolidation before the recovery movement is resumed. This is scarcely surprising in view of the ten-point rise in per capita **Business Activity** from the year's low of 81.6 in mid-April. A mildly correctional sag over the next few weeks would be a natural aftermath of the four-months' sharp expansion, even had there been no war crisis.

* * *

As this is written the long threatened war in Europe has become an actuality, with its myriad of implications and initial confusion and uncertainty. War has been so exhaustively publicized, however, and so much time has been allowed for precautionary measures against undue shock to our financial and industrial economy, that the outbreak of hostilities probably will not have a seriously adverse effect upon business in this country, though readjustments would be required in a number of special situations. It is already apparent, for

(Please turn to next page)



Business and Industry

	Date	Latest Month	Previous Month	Last Year
INDUSTRIAL PRODUCTION (a)	July	102	98	83
INDEX OF PRODUCTION AND TRADE (b)	July	85	84	75
Production	July	82	81	71
Durable Goods	July	64	63	45
Non-durable Goods	July	94	92	87
Primary Distribution	July	79	78	72
Distribution to Consumers	July	94	94	85
Miscellaneous Services	July	80	81	77
WHOLESALE PRICES (h)	July	75.4	75.6	78.8
INVENTORIES (n. i. c. b.)				
Raw Materials	June	94.7(pl)	96.4	113.7
Semi-Finished Goods	June	112.6(pl)	113.7	121.5
Finished Goods	June	109.4(pl)	109.6	113.4
COST OF LIVING				
All items	July	84.9	84.7	86.5
Food	July	78.1	77.9	81.7
Housing	July	86.3	86.0	86.6
Clothing	July	71.9	72.0	73.5
Fuel and Light	July	83.8	83.4	84.1
Sundries	July	96.9	96.6	97.5
Purchasing value of dollar	July	117.8	118.1	115.6
NATIONAL INCOME (cm)†	June	$5,718	$5,209	$5,388
CASH FARM INCOME†				
Farm Marketing	July	$534	$501	$609
Including Gov't Payments	July	570	552	643
Total, First 7 Months	July	3,951	......	3,984
Prices Received by Farmers (ee)	July	89	89	95
Prices Paid by Farmers (ee)	July	120	121	123
Ratio: Prices Received to Prices Paid (ee)	July	74	74	77
FACTORY EMPLOYMENT (f)				
Durable Goods	June	84.1	83.3	72.4
Non-durable goods	June	96.9	96.7	90.3
FACTORY PAYROLLS (f) (not adjusted)	June	86.2	84.4	70.8
RETAIL TRADE				
Department Store Sales (f)	July	86	86	83
Chain Store Sales (g)	July	112.0	111.0	108.0
Variety Store Sales (g)	July	119	118	112.2
Rural Retail Sales (j)	June	131.7	131.2	116.6
Retail Prices (s) as of	Aug. 1	89.3	89.1	89.0
FOREIGN TRADE				
Merchandise Exports†	July	229.6	236.1	227.5
Cumulative year's total† to	July	1,645.5	......	1,818.3
Merchandise Imports†	July	168.9	178.9	140.8
Cumulative year's total† to	July	1,263.4	......	1,101.8
RAILROAD EARNINGS				
Total Operating Revenues★	1st 6 mos.	$1,804,127	......	$1,636,067
Total Operating Expenditures★	1st 6 mos.	1,400,744	......	1,331,594
Taxes★	1st 6 mos.	172,470	......	168,869
Net Rwy. Operating Income★	1st 6 mos.	165,263	......	71,186
Operating Ratio %	1st 6 mos.	77.64	......	81.39
Rate of Return %	1st 6 mos.	1.57	......	0.67
BUILDING Contract Awards (k)				
F. H. A. Mortgages				
Selected for Appraisal†	July	84.5	101.5	94.2
Accepted for Insurance†	July	52.6	82.3	60.4
Premium Paying†	July	51.2	......	40.8
Building Permits (c)				
214 Cities†	July	$86.4	$95.6	$67.8
New York City†	July	16.4	15.9	73.0
Total, U. S.†	July	102.8	120.9	140.8
Engineering Contracts (En)†	July	$181.5	$262.4	$223.3

PRESENT POSITION AND OUTLOOK

(Continued from page 577)

example, that, whatever the outcome of disrupted economic conditions abroad, world trade and finance must take heed of depreciating foreign currencies, a slow stiffening in interest rates, and the probability that high grade bond prices have seen their peak.

* * *

While developments in Europe are likely to create sharp demands in special situations with resultant wide swings in price levels these might well be discounted by sagging tendencies in less strongly supported divisions. The resolution of these forces might have no marked effect on the general price level, yet would indicate a temporary disregard for basic factors.

* * *

National income paid out during the first seven months of 1939 totaled $37,985,000,000, a 3% gain over the like period last year. **Farm Income** in July, including Government subsidies, was 11% below last year, compared with a recession of only 1% for seven months. Bureau of Agricultural Economics estimates total for 1939 at $7,900,000,000, against $8,020,000,000 last year, $8,988,000,000 in 1937 and peak of $11,221,000,000 in 1929. Cash income in 1932 was only $4,606,000,000. Farm **employment** on Aug. 1 totaled 11,058,000 (including 2,845,000 hired farm hands), about 200,000 below last year. **Department store sales** for week ended Aug. 19 were 6% above last year, against a four weeks' gain of only 5%. For the month of July, Government reports show sales increases over last year of 12.8% by manufacturers, 5.8% by wholesalers and 6.7% by retailers. While total sales by **department stores** last year were 7.6% below the 1937 total, instalment sales declined 15.3% with charge account sales off only 5%. For 1937, Instalment business amounted to 9.7% of total sales, cash sales accounted for 47.1%, while charge sales made up the remaining 43.2%.

* * *

Carloadings continue to increase at about the normal seasonal rate, while maintaining a lead of about 13% over last year. For July, aggregate gross operating revenues of Class I **carriers** was 11% above last year, compared with a gain of only 5% for seven months; while n. o. i. increased 28%, against 96% for seven months.

* * *

Signs of reviving activity in the **construction** field are among the more hopeful domestic business developments of recent weeks. For the month of July, **building permits** granted in over 2,000 cities were 10.4% above last year, compared with a seven-months' increase of 27%; while **contracts** closed in 37 States East of the Rockies were up 25%, with **residential** contracts also gaining 25% and factory awards jumping 80%. **Construction costs** for small homes are now about 4.8% below the 1937 high, with labor slightly dearer and materials 7.4% cheaper. Lower interest rates are also stimulating.

	Date	Latest Month	Previous Month	Last Year
STEEL				
Ingot Production in tons★	July	3,289	3,125	1,974
Pig Iron Production in tons★	July	2,356	2,118	1,202
Shipments, U. S. Steel in tons★	July	676	733	443
AUTOMOBILES				
Production				
Factory Sales	July	209,343	309,720	141,443
Total 1st 7 Months	1939	2,171,256	......	1,344,786
Retail Sales				
Passenger Cars, U. S. (p)	1st 7 mos.	1,638,410	......	1,123,774
Trucks, U. S. (p)	1st 7 mos.	293,573	......	235,682
PAPER (Newsprint)				
Production, U. S. & Canada★ (tons)	July	302.6	321.1	265.8
Shipments, U. S. & Canada★ (tons)	July	297.1	316.9	275.2
Mill Stocks, U. S. & Canada★ (tons)	July	219.1	213.6	201.8
LIQUOR (Whisky)				
Production, Gals.★	July	3,711	5,782	3,915
Withdrawn, Gals.★	July	4,343	4,890	4,339
Stocks, Gals.★	July	477,149	478,875	470,400
GENERAL				
Machine Tool Orders (n)	July	230.9	211.6	89.6
Railway Equipment Orders (Ry)				
Locomotive	July	4	8	3
Freight Cars	July	None	1,324	None
Passenger Cars	July	39	14	None
Cigarette Production†	July	14,260	16,595	13,784
Bituminous Coal Production★ (tons)	July	29,490(pl)	27,900	23,367
Boot and Shoe Production Prs.★	July	33,489(pl)	31,776	30,742
Paperboard, new orders (st.)	July	382,682	383,371	322,948
Portland Cement Shipments★	June	12,715	12,748	10,943

PRESENT POSITION AND OUTLOOK

Domestic factory sales of **automobiles** in July were 32% ahead of last year, compared with an increase of 63% for seven months. In spite of the scarcity of popular models in dealers' hands, owing to earlier introduction of new models this season, sales of cars and trucks to consumers during the first 20 days of August were 34% heavier than for the like period in 1938. By the end of August, dealers' stocks were down to around last year's level of 144,000.

* * *

As a natural aftermath of the unusually sharp spurt in June, **cigarette** withdrawals during July were only 4.5% above the like period last year, compared with a seven-months' increase of 5.1%. Production of other tobacco products for seven months, compared with last year, included an increase of 4.9% for cigars and snuff, and a decrease of 1.7% for manufactured tobacco.

* * *

Portland cement shipments during July were 16% ahead of last year, with month-end inventories 6.7% lower than a year earlier. **Newsprint** consumption by U. S. publishers during July was 14% larger than last year; while month-end stocks in the U. S. and Canada—at mills, held by publishers, and in transit—were 5% below the like date in 1938.

WEEKLY INDICATORS

	Date	Latest Week	Previous Week	Year Ago
M. W. S. INDEX OF BUSINESS ACTIVITY 1923-25—100	Aug. 26	91.8	91.9	79.9
ELECTRIC POWER OUTPUT				
K.W.H.†	Aug. 26	2,355	2,368	2,134
TRANSPORTATION				
Carloadings, total	Aug. 26	688,591	674,237	620,557
Grain	Aug. 26	43,604	43,965	45,387
Coal	Aug. 26	123,893	118,692	104,397
Forest Products	Aug. 26	31,953	31,371	30,884
Manufacturing & Miscellaneous	Aug. 26	265,199	259,453	244,816
L. C. L. Mdse	Aug. 26	154,170	153,373	151,000
STEEL PRICES				
Pig Iron $ per ton (m)	Aug. 29	20.61	20.61	19.61
Scrap $ per ton (m)	Aug. 29	15.62	15.46	14.50
Finished c per lb. (m)	Aug. 29	2.236	2.236	2.300
STEEL OPERATIONS				
% of Capacity week ended (m)	Aug. 31	63.5	63.0	44.0
CAPITAL GOODS ACTIVITY (m) week ended	Aug. 26	65.3	63.2	54.5
PETROLEUM				
Average Daily Production bbls.★	Aug. 26	1,691	2,481	3,389
Crude Runs to Stills Avge. bbls.★	Aug. 26	3,475	3,575	3,269
Total Gasoline Stocks bbls.★	Aug. 26	73,475	74,738	71,893
Gas Fuel Oil Stocks, bbls.★	Aug. 26	111,340	110,550	117,845
Crude—Mid-Cont. $ per bbl	Sept. 1	1.02	0.82	1.22
Crude—Pennsylvania $ per bbl	Sept. 1	1.48	1.48	1.40
Gasoline—Refinery $ per gal	Sept. 1	.06	.06	.06⅝

PRESENT POSITION AND OUTLOOK

With **electric power output** establishing all time records, while holding its 10% margin of increase over last year, conviction is growing that the industry may soon be compelled to increase its expenditures for new plant and equipment. Further encouraging evidence of the Administration's new policy of cooperation with privately operated Utilities was afforded since our last issue through disclosure that the TVA has contracted to furnish power to a large subsidiary of the Commonwealth and Southern Corp.

* * *

Steel operations have expanded during the past fortnight at a much greater than normal seasonal rate and, at 63% of capacity, are now 44% above last year's level at this time. With Automobile plants getting into production on new models, and helped by prospects of expanding demand from abroad, predictions are being freely made that the Operating Rate will top 70% before the usual autumn peak is reached in early October.

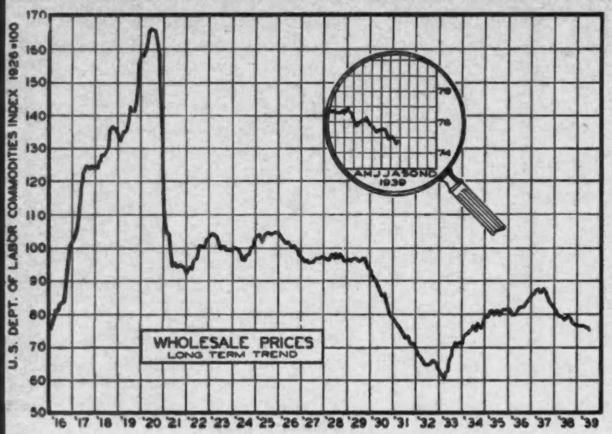
* * *

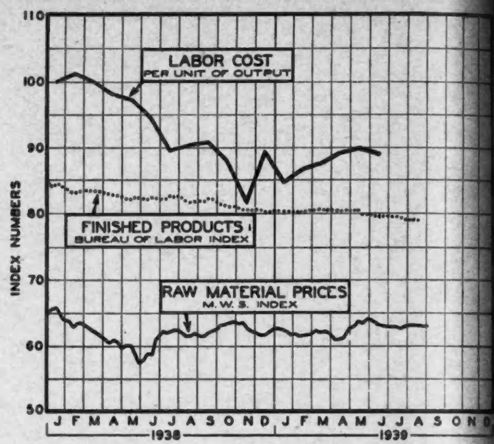
In consequence of the half-month's shut-down in **crude oil** output by the majority of leading producing states, practically all refiners have restored prices prevailing prior to the recent cut. However, the new stability is still imperilled by overproduction in Illinois.

†—Millions. ★—Thousands. (a)—Federal Reserve 1923-25—100. (b)—Federal Reserve Bank of N. Y. 100%—estimated long term trend. (c)—Dun & Bradstreets. (cm)—Dept. of Commerce estimates of income paid out. (d)—Nat. Ind. Conf. Bd. 1923—100. (e)—Dept. of Agric., 1924-29—100. (ee)—Dept. of Agric., 1909-14—100. (f)—1923-25—100. (g)—Chain Store Age 1929-31—100. (h)—U.S.B.L.S. 1926—100. (j)—Adjusted—1929-31—100. (k)—F. W. Dodge Corp. (m)—Iron Age. (n)—1926—100. (pl)—Preliminary. (s)—Fairchild Index, Dec., 1930—100. (En)—Engineering News Record. (Ry)—Railway Age. (n. i. c. b.)—Nat. In. Conf. Bd. 1936—100. (st)—Short tons.

Trend of Commodities

After following an indecisive and irregular pattern during most of the past fortnight, during which time the question of war or peace in Europe hung in the balance, prices of leading commodities promptly acted in traditional fashion upon the news that German troops and warplanes had invaded Poland. Prices of wheat and other grains rose sharply, accompanied by sugar, cocoa, rubber and hides. Cotton prices were firm to somewhat lower. Just how reliable the 1914 precedent will prove in the present situation remains to be seen. A possibility in the present setting is that various government controls may be invoked to prevent anything in the nature of a runaway market. However, about the only thing certain in the commodity price prospect at this early date is the certainty that fundamental factors will be all but completely overshadowed by the calculation of potential war effects.





Changes in Major Commodity Price Groups for the fortnight Ended Aug. 26, 1939

Farm Products	61.1	down 0.3	Metals	93.5	no change
Foods	66.7	no change	Building Material	89.7	down 0.4
Hides and Leather	92.6	down 0.9	Chemical	92.6	down 0.3
Textiles	67.4	up 0.2	Housefurnishings	87.0	no change
Fuel and Lighting	73.5	down 0.3	Miscellaneous	73.1	up 0.1

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COTTON				
Price cents per pound, closing				
October	Sept. 2	8.37	8.72	8.23
December	Sept. 2	8.18	8.57	8.29
Spot	Sept. 2	8.87	9.04	8.35
(In bales 000's)				
Visible Supply, World	Aug. 25	6,490	6,471	7,577
Takings, World, wk. end	Aug. 25	269	326	264
Total Takings, season Aug. 1 to	Aug. 25	1,102	833	1,045
Consumption, U. S.	July	521	578	448
Exports, wk. end	Aug. 25	54	50	54
Total Exports, season Aug. 1 to	Aug. 25	175	121	194
Government Crop Est. (final)	Aug. 1	11,412	......	11,943(ac)
Active Spindles (000's)	July	21,915	21,975	21,915
WHEAT				
Price cents per bu. Chi. closing				
September	Sept. 2	76½	67⅜	62½
December	Sept. 2	77	67⅜	64
Exports bu. (000's) since July 1 to	Aug. 19	16,103	12,762	23,540
Exports bu. (000's) wk. end	Aug. 19	3,341	3,018	3,195
Visible Supply bu. (000's) as of	Aug. 19	146,520	145,943	107,400
Gov't Crop Est. bu. (winter) (000's)	Aug. 1	731,432	716,655	930,801(ac)
CORN				
Price cents per bu. Chi. closing				
September	Sept. 2	49⅝	43⅜	50⅝
December	Sept. 2	50½	43¼	49
Exports bu. (000's) since July 1 to	Aug. 19	519	350	29,446
Visible Supply bu. (000's) as of	Aug. 19	14,892	16,852	10,482
Gov't Crop Est. bu. (000's) (final)	Aug. 1	2,459,888	2,570,795	2,542,238(ac)

PRESENT POSITION AND OUTLOOK

Cotton. It is the consensus that war, at least temporarily, is bearish on cotton prices. Stocks held abroad are likely to be worked off and new purchases deferred in favor of armaments and foodstuffs. Pressure on domestic prices, however, will be cushioned by the fact that a government cotton loan would become mandatory at 8.16 cents. Cotton supplies in Europe, however, are not large and restricted buying may be of comparatively short duration.

* * *

Wheat. News that Germany had invaded Poland was promptly reflected in domestic wheat markets and prices rose 5 cents a bushel, the daily limit, accompanied by extensive short covering. Known wheat supplies today are much larger than in 1914, but the prospect of prolonged hostilities would be certain to intensify the demand and raise prices appreciably. Domestic wheat surplus is estimated at 300,000,000 bushels, equivalent to six months' supply. War will necessitate considerable revision in the Government's 1940 acreage restriction plans.

* * *

Corn. Prices of corn, another war commodity, rose sharply. Domestic farmers could use a demand stimulant. Carryover is the largest on record and the current harvest is close at hand.

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	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COPPER				
Price cents per lb.				
Domestic	Sept. 2	11.00	10.50	10.125
Exports, c. i. f.	Sept. 2	11.00	10.50	10.10
Refined Prod., Domestic (tons)	July	57,339	61,719	35,596
Refined Del., Domestic (tons)	July	59,681	53,573	48,071
Refined Stocks, Domestic (tons)	July 31	316,543	335,017	339,997
Refined Prod., World (tons)	July	158,236	173,205	139,483
Refined Del., World (tons)	July	181,487	180,433	177,580
Refined Stocks, World (tons)	July 31	490,419	513,670	523,196
TIN				
Price cents per lb., N. Y.	Sept. 1	52	48.875	43.00
Tin Plate, price $ per box	Sept. 1	5.00	5.00	5.35
World Stocks† as of	July 31	29,625	30,055	39,137
U. S. Deliveries†	July	5,275	4,925	3,775
U. S. Visible Supply† as of	July 31	5,339	4,388	4,071
LEAD				
Price cents per lb., N. Y.	Sept. 1	5.05	5.05	4.90
U. S. Production (tons)	July	37,021	39,068	31,488
U. S. Shipments (tons)	July	42,636	38,710	40,409
Stocks (tons) U. S., as of	July 31	124,017	129,636	155,631
ZINC				
Price cents per lb., St. Louis	Sept. 1	4.75	4.75	4.75
U. S. Production (tons)	July	39,669	39,450	30,362
U. S. Shipments (tons)	July	43,128	37,284	33,825
Stocks (tons) U. S., as of	July 31	131,782	135,241	146,208
SILK				
Price $ per lb. Japan xx crack	Sept. 1	2.575	2.64	1.755
Mill Dels. U. S. (bales), season to	July 31	26,142	......	32,593
Visible Stocks N. Y. (bales) as of	July 31	25,748	19,209	42,305
RAYON (Yarn)				
Price cents per lb	Sept. 1	51.0	51.0	51.0
Consumption	July	32.9	33.0	31.9
Stocks as of (a)	July 31	25.0	32.6	53.6
WOOL				
Price cents per lb. tops, N. Y.	Sept. 2	92	85½	81
HIDES				
Price cents per lb. No. 1 Packer	Sept. 1	12	10½	11½
Visible Stocks (000's) (b) as of	June 30	13,002	12,905	13,936
No. of Mos. Supply as of	June 30	7.5	6.5	8.0
RUBBER				
Price cents per lb	Sept. 1	18.90	16.85	16.27
Imports, U. S.†	July	36,739	35,947	22,918
Consumption, U. S.†	July	43,880	47,259	34,219
Stocks U. S. as of	July 31	174,240	181,794	282,785
Tire Production (000's)	July	4,510	4,870	3,287
Tire Shipments (000's)	July	5,056	5,750	3,870
Tire Inventory (000's) as of	July 31	8,300	8,909	8,041
COCOA				
Price cents per lb. Sept	Sept. 1	4.45	4.14	4.99
Arrivals (thousand bags)	July	232	198	351
Warehouse Stocks (thousand lbs.)	Aug. 25	1,367	1,386	758
COFFEE				
Price cents per lb. (c)	Sept. 1	7¼	7¼	8¼
Imports, season to	July 31	912	......	1,185
U. S. Visible Supply (bags 000's)	Aug. 1	1,422	1,408	1,265
SUGAR				
Price cents per lb.				
Duty free delivered	Sept. 1	3.24	2.90	2.95
Refined (immediate Shipment)	Sept. 1	4.75	4.30-4.40	4.45
U. S. Deliveries (000's)*	1st 7 mos.	3,520(pl)	......	3,494
U. S. Stocks (000's)* as of	July 31	852	......	738

PRESENT POSITION AND OUTLOOK

Copper. An embargo placed on the shipment of copper from Great Britain to Germany brought Germany into the domestic market. In view of the fact, however, nearby shipments were specified it is not considered likely that large tonnages were booked. War is bullish on the copper prospect, even though the foreign copper cartel will doubtless remove all restrictions on production.

* * *

Tin. Domestic stocks are not large and tin is a commodity which might be affected by shipping delays, a prospect which opens up the possibility of a sharp run-up in prices. A prolonged interruption in supplies might lead to large scale substitution of other metals and materials.

* * *

Lead. Domestic stocks of refined lead declined 5,619 tons in July; shipments were up 3,926 tons over June, making July the best month since last October. Production in July was off 2,047 tons. Industrial buying, under the urgency of the European situation, has recently been quite heavy.

* * *

Zinc. Domestic orders have been quite satisfactory and with the London Metal Exchange closed, eliminating the influence of the London market on domestic quotations, the outlook is favorable for sustained price firmness.

* * *

Silk. Already threatened by large scale substitution of synthetic materials, any further bulge in silk prices resulting from shipping delays or diversion to war uses can only result in a further decline in domestic use. Market has recently been under the influence of Japanese selling, apparently to acquire dollar exchange in advance of the treaty abrogation.

* * *

Hides. After recent weakness, prices breaking under the threat of an increase in potential supplies resulting from the drought in Western United States, hides have shown a firmer tone. At the outbreak of war in 1914, hide prices were unaffected but by the end of 1914 had shown a net gain of more than 2 cents.

* * *

Rubber. War finds rubber in a tight supply situation in major consuming countries. Quotas will probably be raised again early this month and for the time being at least no serious disruption in shipments to the United States from the Near East appears likely. Prices, however, will be under the influence of war, which probably means higher levels.

* * *

Cocoa. Cocoa is listed by Great Britain as an essential war commodity and prices in New York were prompt to respond to the actual outbreak in hostilities. Between the end of July, 1914 and December 31, 1914 cocoa prices rose from 11.50 cents to 17 cents.

* * *

Sugar. Another important war commodity, raw sugar prices have been firm to higher throughout the past fortnight of European tension and rose sharply following the German invasion of Poland. Prices soared to the daily limit. War would materially reduce huge world surpluses of sugar. Higher prices likely.

(a)—Million Pounds. (ac)—Actual. (pl)—Preliminary. (c)—Santos No. 4 N. Y. †—Long tons. *—Short tons. (RR)—Raw and refined.

Money and Banking

	Date	Latest Week	Previous Week	Year Ago
INTEREST RATES				
Time Money (60-90 days)	Sept. 1	1¼%	1¼%	1¼%
Prime Commercial Paper	Sept. 1	½%	½%	¾%
Call Money	Sept. 1	1%	1%	1%
Re-discount Rate, N. Y.	Sept. 1	1%	1%	1%
CREDIT (millions of $)				
Bank Clearings (outside N. Y.)	Aug. 19	2,539	2,251	2,246
Cumulative year's total to	Aug. 19	78,900	......	74,155
Bank Clearings, N. Y.	Aug. 19	3,305	2,501	2,854
Cumulative year's total to	Aug. 19	103,341	......	116,283
F. R. Member Banks				
Loans and Investments	Aug. 23	22,340	22,337	20,713
Commercial, Agr., Ind. Loans	Aug. 23	3,938	3,912	3,890
Brokers Loans	Aug. 23	639	676	636
Invest. in U. S. Govts.	Aug. 23	8,533	8,544	7,724
Invest. in Govt. Gtd. Securities	Aug. 23	2,274	2,267	1,653
Other Securities	Aug. 23	3,355	3,340	3,119
Demand Deposits	Aug. 23	17,835	17,641	15,214
Time Deposits	Aug. 23	5,250	5,245	5,227
New York City Member Banks				
Total Loans and Invest.	Aug. 30	8,379	8,340	7,751
Comm'l Ind. and Agr. Loans	Aug. 30	1,545	1,496	1,479
Brokers Loans	Aug. 30	467	489	375
Invest. U. S. Govts.	Aug. 30	3,155	3,187	2,869
Invest. in Gov't Gtd. Securities	Aug. 30	1,147	1,141	795
Other Securities	Aug. 30	1,221	1,186	1,080
Demand Deposits	Aug. 30	8,195	7,951	6,446
Time Deposits	Aug. 30	647	645	657
Federal Reserve Banks				
Member Bank Reserve Balance	Aug. 30	10,951	10,829	8,179
Money in Circulation	Aug. 30	7,141	7,098	6,504
Gold Stock	Aug. 30	16,638	16,501	13,136
Treasury Currency	Aug. 30	2,905	2,903	2,731
Treasury Cash	Aug. 30	2,327	2,334	2,174
Excess Reserves	Aug. 30	4,800	4,740	2,940

		Latest Month	Last Month	Year Ago
NEW FINANCING (millions of $)				
Corporate	July	226.0	282.0	185.8
New Capital	July	49.5	30.2	130.3
Refunding	July	176.5	251.8	55.5

COMMENT

The latest statement of the **New York City member banks** is interesting in revealing the attitude of Reserve banks toward the European war crisis. Although New York City reporting banks showed a decline of $24,000,000 in U. S. Government bonds in the week ended Aug. 30, it was revealed that these bonds had been sold the previous Thursday and did not represent general liquidation. On the latter day a meeting of New York City bankers was held and it is understood that they agreed that nothing would be gained by selling Governments. This co-operative action is probably one of the many cogs in the machinery which has been set up to prevent or cushion a panicky situation in financial circles. Banks elsewhere in the country are doubtless a party to this agreement.

* * *

It would also appear from the latest **Federal Reserve** statement that the system entered the open market, when serious weakness appeared to threaten Government bond prices. For the first time since late last November the **Federal Reserve** open market portfolio increased, and it was the first time in two years that Government securities were purchased on balance. The gain, however, was modest, amounting to only $3,450,000. In recent weeks the open market portfolio has been permitting maturing bills to run off without replacement.

* * *

Notwithstanding the decline in Government bond holdings of New York City banks this group showed a net increase in earnings assets due largely to an increase of $49,000,000 in commercial industrial and agricultural loans. This was the largest gain in commercial borrowings since October, 1937, and total of such loans are now at the highest figure since May 25, 1938. It is understood, however, that the increase was largely accounted for by two large capital loans of longer term maturities.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

No. of Issues (1925 Close—100)	1939 Indexes High	Low	Aug. 26	Sept. 2
316 COMBINED AVERAGE	73.1	50.7	55.9	57.5
5 Agricultural Implements	119.4	81.4	82.3	86.7
6 Amusements	43.2	26.8	32.0	27.3
15 Automobile Accessories	92.3	55.2	67.0	67.4
12 Automobiles	12.8	8.1	8.9	9.1
11 Aviation (1927 Cl.—100)	182.7	128.2	133.7	145.6
3 Baking (1926 Cl.—100)	15.4	11.5	12.7	11.7
3 Business Machines	183.9	114.0	123.7	114.0L
9 Chemicals	168.2	123.7	133.0	145.4
20 Construction	47.5	27.7	28.6	28.1
5 Containers	242.6	165.0	192.6	191.6
9 Copper & Brass	118.6	71.2	84.4	103.0
2 Dairy Products	32.1	23.6	29.2	28.3
8 Department Stores	23.9	16.5	18.8	18.0
7 Drugs & Toilet Articles	53.5	40.4	43.0	42.7
2 Finance Companies	312.0	219.4	255.8	233.3
7 Food Brands	103.3	69.1	90.6	89.9
3 Food Stores	48.4	33.3	44.4	41.9
4 Furniture & Floor Covering	72.1	47.1	55.0	50.5
3 Gold Mining	1301.2	1029.1	1143.8	1029.1x
6 Investment Trusts	28.1	19.2	21.5	23.0
4 Liquor (1932 Cl.—100)	193.1	132.9	134.5	132.9L
9 Machinery	129.0	83.3	93.5	96.4

No. of Issues (1925 Close—100)	1939 Indexes High	Low	Aug. 26	Sept. 2
316 COMBINED AVERAGE	73.1	50.7	55.9	57.5
2 Mail Order	90.5	69.2	83.8	81.3
4 Meat Packing	52.3	41.5	41.7	49.9
14 Metals, (non-Ferrous)	173.6	122.0	128.7	161.4
2 Paper	13.5	7.5	8.6	8.2
24 Petroleum	100.9	74.3	75.1	83.2
18 Public Utilities	62.6	44.9	55.4	50.5
4 Radio (1927 Cl.—100)	17.0	10.0	11.4	10.0L
9 Railroad Equipment	61.6	33.7	37.7	40.5
22 Railroads	18.1	10.9	11.2	11.0
2 Realty	7.9	2.6	2.6	2.6
2 Shipbuilding	82.7	45.1	51.7	59.0
13 Steel & Iron	99.0	60.4	66.5	77.1
2 Sugar	25.3	13.3	15.7	25.3H
2 Sulphur	153.2	113.0	118.5	132.0
3 Telephone & Telegraph	52.7	40.3	45.5	41.9
4 Textiles	45.0	27.4	38.2	42.4
4 Tires & Rubber	20.0	13.0	15.1	15.9
4 Tobacco	86.5	76.2	82.7	79.9
4 Traction	39.1	21.9	31.1	28.5
4 Variety Stores	244.4	189.3	212.7	204.7
20 Unclassified (1938 Cl.—100)	100.8	73.1	81.0	80.4

H—New HIGH this year. x—New LOW this year. L—New LOW since 1937.

American Smelting

(*Continued from page 555*)

shares. Incidentally, too, since the bulk of Smelting's foreign silver production has been from Mexico, the U. S. Treasury's recent action in reducing its purchase price for foreign silver is of less import than it might otherwise have been and, in any case, has probably been offset by the increase in the domestic price.

By and large, then, the common shares at recent levels around 40 would scarcely appear to be overvalued on earnings and dividend prospects. There is, of course, the war hazard but Smelting is no more vulnerable in this respect than most other concerns and, by virtue of its South American interests, will probably gain more than most in the way of trade with the belligerents if strict neutrality legislation is enforced in the United States. Its only major overseas investment is in Australia, well out of the main combat zones.

Answers to Inquiries

(*Continued from page 575*)

rent year increased substantially over a year earlier, although higher maintenance costs tended to prove an offset. Nevertheless, the earnings report for the six months ended June 30, 1939, showed a net loss of only $3,394,082, or well below the $7,088,655 loss the year before. Loadings have continued to record good progress and for the two weeks ended August 12, 1939, revenue cars handled showed an increase of nearly 20% above the like interval of 1938, while the increase for the 32 weeks ended August 12th amounted to roughly 18%. Although the rate of gain probably will be less pronounced over the remaining months of the year, prospects point to a continued betterment over a year ago. Shipments of iron ore, among the road's most important freight items, are expected to continue the uptrend in evidence now for some time past, while shipments of forest products also are expected to continue at a satisfactory level in reflection of the gains being registered in the construction industries. Prospects for agricultural loadings, particularly wheat, are less clearly defined. Indications point to somewhat smaller shipments of that item due to reduced acreage as well as to deteriorization in the prospective Spring crop. Withholding crops from the market through the medium of Government loans is also a factor. Nevertheless, Great Northern's prospects generally may be said to be distinctly encouraging and given further improvement in the business situation, the road should be able to record earnings for the year as a whole well above the $1.09 a share on the preferred stock shown for 1938. Insofar as funded debt is concerned, this is regarded as conservative in relation to assets and earning power and there seems to be little question as to the road's ability to satisfactorily handle such maturities as fall due over early future years, even allowing for a continuance of the present sub-normal level of industrial activity. From the standpoint of longer term market possibilities, the shares hold interesting possibilities and on that basis we believe that retention is desirable, although dividend payments may be deferred pending further earnings gains and arrangement for handling the $28,383,000 assumed maturity of the St. Paul, Minneapolis & Manitoba Rwy. Co., which falls due next July.

Kennecott Copper Corp.

Do you expect Kennecott to show price enhancement in the coming months? I hold 100 shares bought at 50 and thought that growing demand for copper due to increased construction and armament buying would be reflected in higher prices for the shares. However, I am a little disappointed in the recent action of the stock. What do you recommend?—Dr. L. L. P., Boston, Mass.

Kennecott Copper should be in a good position to benefit earningswise on continuation of current improvement in business and industrial activity. The company is estimated to have earned about 90 cents per share for the first half of this year as against 76 cents per share for the corresponding period last year and, with heavy demand in prospect, it is possible that earnings for the full year may show at least moderate improvement over the $2.10 per share reported for 1938. Of course, further Chilean taxes would harm the company since about one third of its

output comes from that country. Ore reserves are ample and with most of the mining done by the open-pit method, Kennecott is able to maintain very flexible control over operations, which results in comparatively low costs. Finances, according to the latest balance sheet available, have been maintained in their consistently strong position, with cash alone being considerably in excess of current liabilities. Dividends will likely be continued at current levels at least, with increases dependent on earnings. Both the immediate and longer term outlook for the concern must be regarded as optimistic and we counsel retention of your holdings for moderate income returns and probable appreciation over the coming months from these levels.

Electric Storage Battery Co.

Is Electric Storage Battery in a position to improve earnings in the last half of 1939? I have read that first half volume of business showed material improvement in orders from the heavy industries and railroads. With greater demand from the automobile industry, too, shouldn't this stock be a good "hold" for the rest of the year? I have 75 shares bought at 40.—B. L. S., Roanoke, Va.

Electric Storage Battery enjoyed, as you know, a very worthwhile improvement in volume business during the first six months of the current year and in our opinion indications point to continued betterment during the balance of the year. Not only are prospects for automobile battery sales favorable, in line with conditions obtaining in the automobile industry generally, but sales to the railroads for air-conditioning likely will continue to expand. Increasing sales to the heavy industries for use on industrial trucks and for other purposes also should continue to compare favorably with a year ago, while Government orders should hold up well in view of the rearmament program. Last year Electric Storage Battery earned the equivalent of $1.04 a share on the combined common and preferred stocks and in view of the indicated pickup in volume business this year, earnings may well approach the $2.32 a share reported for 1937. Finances of the organization continue strong and at the close of last year current assets, including $14,957,838 cash and marketable securities, equalled $26,426,302, or well in excess of current liabilities of $2,431,989. Competition in the automobile battery field continues extremely keen, but the company's nationally advertised quality "Willard" and "Exide" batteries have been able to hold their own and this situation likely will continue. With an improvement in the general business situation, the company's sales may be expected to record a very worthwhile betterment, especially as sales to the railroads should show pronounced gains in line with the anticipated wider adoption of air-conditioned passenger trains. With finances in excellent condition and earnings prospects promising, the 50 cent quarterly dividend rate likely will be maintained, rendering the stock at these levels attractive on an income basis, while appreciation possibilities also favor further retention of your holdings, in our opinion.

Rated Higher Than in 1929

(*Continued from page* 567)

continued, and the figures for the first six months indicate that $1.06 was earned per share. With no marked seasonal variance in its earnings, L-O-F should at the present rate report approximately $2.35 for the year if present expectations of the auto makers are realized.

Presently selling around 44, with a high of 56¾ and a low of 36½ already on record, Libbey-Owens-Ford moves rapidly marketwise. Dividends of $1.50 have been paid or are payable so far this year, and are estimated in the neighborhood of $2 for the full twelve months. The company has shown ability to lead the expansion of the industry, and growth possibilities have apparently by no means been exhausted. Of course the company has not the earnings stability of Hazel-Atlas Glass, producer of the famous Mason Jar, but it has a well defined stake in both the automobile and the building industry. If, in spite of the situation in Europe, the industrial upswing that has been in progress now for some months continues to accelerate, there will be a corresponding move on the part of L-O-F. In view of this it would seem that that stock merits attention as a speculative issue of promise.

Are the Oils at Bottom?

(*Continued from page* 561)

it was sufficient to enable refiners who purchased it to set the price of gasoline. Any attempt to raise gasoline prices resulted in price-cutting on the part of these refiners using lower cost crude oil.

Responsibility for the substantial movement of underpriced crude lies largely with those states which have either refused to enact conservation measures or which have been indifferent to the enforcement of such legislation. Illinois was the worst offender. Production in Illinois fields, which a year ago amounted to only 50,000 barrels daily, has risen to 310,000 barrels this year, and the state now ranks fourth in oil production. Illinois producers have virtually captured the important Chicago refining area, and being unhampered by proration legislation have been able to throw surplus production on the market at prices which would be unprofitable, or even ruinous, for producers in the mid-continent area. Illinois oil has been moving to market at prices as much as 35 cents a barrel under the posted market. Officials in Illinois have steadfastly refused to consider proration legislation, on the grounds that the State's best interests lay in the development of its infant oil industry.

Laxness in enforcing conservation legislation in Arkansas and Louisiana has encouraged crude oil price cutting. This has also been a disturbing factor but to a much lesser degree than the situation in Illinois.

The immediate effect of the six-state shutdown of oil wells was a sizable reduction in crude oil stocks. In the week ended August 19, which only partially reflected the closings, crude stocks withdrawn from storage totaled 5,050,000 barrels. Withdrawals in the following week were much larger. Total crude stocks on August 19th amounted to 262,468,000 barrels the smallest in more than seventeen years. On August 29, three major producers announced that southwest crude prices would be restored to the levels existing before August 11, when the price reduction was announced. Other producers shortly followed suit. Gasoline prices stiffened moderately.

So much for the immediate effects. There remains, however, the moot question as to what if anything has been accomplished toward a more permanent solution of the industry's problems. Although sentiment among several leading producers in the Illinois fields favors regulatory legislation, opinion, both political and industrial on that score is still far from unanimous. Whether the reduction of crude prices and the subsequent shut down will have any persuasive effect upon Illinois officialdom remains to be seen. If it doesn't, a further prolonged period of unprofitable gasoline prices may result, accompanied by a repetition of recent events.

The oil industry can scarcely afford another disruption such as recently witnessed, with charges and countercharges being hurled around, and leaving the impression that it is a house divided against itself. Two important investigations of the oil industry at Washington are scheduled for the near future—the monopoly inquiry and the Cole investigation—and disrupted conditions afford an excellent sounding board for members of the Administration advocating Federal control of the industry.

The industry is not concerned primarily with high crude prices as such, but the maintenance of a reasonable spread between crude and refined prices. As a matter of fact it has been found that when crude prices are high, normally the spread is likely to be much more profitable. In the circumstances, the large integrated units cannot be justly accused of attempting to force crude prices lower as a means of driving independent producers out of business.

At this time the oil prospect holds too many unclarified elements to warrant the unqualified belief the near future will restore a semblance of stability and mark a definite turn in the downward trend of oil company profits. As pointed out, however, this is by no means the first time the industry has faced a crisis and subsequently been able to straighten out its affairs. Surely it would seem that the urge to do so at this time, with Washington investigations pending, would facilitate an early restoration of more normal conditions. Recurring price cuts and oil well shutdowns will hardly convince Washington legislators and investigators that the industry is able to keep its own house in order. It has also been characteristic of the industry, that its troubles in the past have always appeared to be at their worst just before the turn.

Since August, 1938, the shares of twelve leading oil companies have declined an average of 25%. In mid-August the petroleum group included in the MAGAZINE OF WALL STREET Common Stock Index was at a new low since 1935. Nine representative oil companies reported an aggregate decline of more than 37% in earnings for the first six months of this year compared with the same period of 1938, adequately accounting for the unfavorable market action of the petroleum group. Recently oil shares have displayed a firmer market tone, apparently on the speculative prospect that recent events involving the industry will ultimately prove beneficial. With the peak consuming season now drawing to a close, speculative interest in oils may wane. There is always the possibility, however, that internal developments affecting the industry over the coming weeks may be sufficiently favorable and dramatic in import to provide the impetus for a substantial rally in these stocks. Aside from the near term market prospect, the probabilities are that present prices have adequately discounted the poor current earnings prospect and holdings of oil shares sold now might very likely prove an untimely move.

5 Moderate Priced Stocks

(Continued from page 572)

Sperry Corp. is engaged in a very highly specialized business. It manufactures various types of equipment for navigation of ships and the control of naval gunnery, and the company promises to be an important beneficiary of the Government's program for enlarging the Navy and the merchant fleet. In addition, the company manufactures many special instruments and products utilized in both military and commercial aviation, as well as in naval and field artillery equipment. Nothwithstanding the fact that during the past five years, production facilities have been greatly expanded, operations have been maintained at practical capacity without materially re-

Forthcoming Dividend Meetings

Company	Time	Date
Air Reduction	9:15	Sept. 13
Amer. Can	2:15	Sept. 26
Amer. General Insurance	3:30	Sept. 14
Amer. Home Products	11:30	Sept. 28
Amer. Smelting & Ref. com. & Pfd	noon	Sept. 19
Bangor Hydro-Elec	9:30	Sept. 14
Barnsdall Oil	11:00	Sept. 29
Bloomingdale Bros	10:00	Sept. 25
California Packing 5% Pfd	3:00	Sept. 14
Carolina, Clinchfield & Ohio	9:30	Sept. 18
Cerro de Pasco	2:00	Oct. 3
Climax Molybdenum	3:30	Sept. 12
Consolidated Oil	4:30	Sept. 13
Continental Can	9:30	Oct. 11
Detroit Edison	2:00	Sept. 12
Dow Chemical com. & 5% pfd	10:00	Oct. 24
Electric Bond & Share $6 Pfd	3:30	Sept. 20
Firestone Tire & Rubber	9:30	Sept. 15
General Foods	9:30	Oct. 11
Hartford Electric Light	4:00	Sept. 26
Hecker Products	9:30	Sept. 27
International Business Machines	11:00	Nov. 28
Jewel Tea	11:00	Sept. 28
McCall	3:30	Sept. 26
National Biscuit com. & pfd	4:00	Oct. 17
Owens-Illinois Glass	9:30	Oct. 20
Pacific Gas & Electric	3:30	Sept. 13
Procter & Gamble	1:45	Oct. 10
Southern California Edison	12:30	Sept. 29
Telautograph	2:30	Sept. 28
Union Oil of Cal	10 00	Oct. 13

All meetings are on common stock unless otherwise noted.

ducing the volume of unfilled orders.

To Sperry Corp., goes the unusual distinction of being able to report record-breaking earnings last year, while the great majority of industrial enterprises suffered a drastic decline in profits as a result of the sharp business recession which occurred in the first six months of 1938. Sperry Corp. last year reported net income of $4,961,398, including $162,044 profit on sale of securities, which was equal to $2.46 per share on 2,015,565 shares of capital stock. This compared with $2,949,860 or $1.46 a share in 1937.

Current assets at the end of last June, including $5,768,158 cash, amounted to $15,393,654 and current liabilities were $5,031,843. The company has no funded debt.

On August 25th the company paid a dividend of $1 a share, the first this year. Last year, two payments, 50 cents on July 29th and $1 on December 19th, were made. The probabilities are that dividends in the current year will total at least $2 a share.

The shares of Sperry Corp. afford one of the more conservative opportunities for assuring investment participation in several of the most active industries, namely, aircraft manufacture and naval construction, with war and general rearmament a source of sizable orders.

Pay Point in Steel

(*Continued from page 557*)

high for the year. Though some seasonal tapering off in sales in this division, together with a similar easing of demand for certain lines of structural steel, may be expected, increased takings by other consumers should prove a more than offsetting factor. Most important of these, of course, is the automobile industry, though increased needs of farm equipment makers and seasonal gains in sales to farmers (despite the dampening effect of depressed agricultural prices), as well as steady demand from miscellaneous fabricators and from the shipbuilding industry, also the distinct possiblity that manufacturers of railroad equipment may be in the market for steel in larger quanities are counted upon as supplementary sources of business.

All things considered, therefore, it would appear that talk of profitless prosperity in the steel industry has been overdone. Admittedly, today's prices leave less room for unit profits than those of late 1937 and early 1938 but, it is important to note, they are considerably more conducive to a higher operating rate. Also, with many weak spots in the price structure eliminated in recent months, official quotations are now more nearly representative of prices actually received and, as such, are not only well above the levels of a few years ago but also above those of 1928 and 1929. Production costs, taxes and hourly wage rates are also higher than ever before and it is not surprising to learn that the industry's earnings for the first half of 1939 amounted to only 1.06% on capital investment in contrast with the 5.1% average annual return realized from 1919 to 1928.

The war will revive the steel industry but what is needed as well is a full fledged revival of the durable goods industries, both consumer and capital. The traditional "big three" consumers of steel—automobiles, railroads and building—still embody the industry's hope of a major comeback. Certainly the motor industry can be relied upon to do its part and, in the longer run, building will probably resume its former importance as a user of steel. Prospects of a major and lasting recovery of railroad buying are not good but cyclical recovery alone, if it coincided with that in motors and building, would probably turn the trick. In which event, of course, prices could be expected to take care of themselves.

Happening in Washington

(*Continued from page 549*)

Food stamp plan expansion has serious implications for federal budget. It is most popular of all schemes for relief aid and removal of farm surpluses, and is strongly endorsed by merchants and business generally. Will be extended to 60 to 100 cities this winter, and tests are being made to include cotton goods and many other products on the surplus list and to take in non-relief families of low income. Some $65 million is available now, but political pressure to expand is expected to become so strong the appropriation will be increased many times and the country will become accustomed to permanent large subsidies of this nature.

How War Will Affect Business

(*Continued from page 547*)

of 1914. On the other hand, the rate of consumption of war materials in a major conflict now would be substantially faster than in the last war. In the writer's opinion, this second fact will only partly condition the first—which means that a price inflation comparable to that of 1915-1919 is improbable. It would not be surprising if the price pattern proved to be opposite to that in the World War, in that the commodity rise then got under way slowly, assuming spectacular proportions belatedly, whereas it has now started fast in speculative commodities and very likely will slow down when the time comes to measure actual war orders against potential production.

Again, it must be noted that war orders would have to be vastly greater than in the World War to exert the same proportionate effect upon our economy, since our industrial capacity and efficiency are far greater than in 1914. Among the industries which received major stimulation from the World War, to mention only three of the most conspicuous, were steel, chemicals and automobiles. In each capacity has been vastly increased in the past quarter of a century. Moreover, in 1914, the chemical and motor industries were virtually in the "infant" class, destined for strong secular growth over the war period in addition to war orders. For example, as shown by the table on page 546, the common stock of General Motors appreciated 452% from the summer of 1914 to the high of 1915. Nothing remotely like this could be reasonably anticipated now. Nevertheless a sustained war demand, in a setting also favorable to a purely peace-basis business expansion, could bring about a highly gratifying level of economic activity—while it lasted. We need not dwell on the ultimate terrific penalties that follow any war boom. They should be familiar to all who have lived

through the painful adjustments, strains and instability of the last generation.

Much that we have said here hinges on the duration of war. Concerning that we can only advance a few conjectures. As compared with the situation in 1914, the most significant military change affecting the European balance of power is that in western Europe both the French and German frontiers are protected by apparently impregnable fortifications. Whereas the World War began as a war of movement and later settled into stalemate on the western front, it would seem probable that, due to existing fortifications, any war now would *start* as a stalemate. In that event an Allied victory would depend upon whether Germany could be effectively blockaded and the time of such victory would depend upon the status of the German war reserves built up in recent years. There is no reliable information bearing upon the latter question. On the whole, however, past experience suggests that when major powers come to grips and when neither side has overwhelming superiority, a long war is inevitable.

Yet surprise *can* happen and the greatest certainty in war is uncertainty. In no country do the masses relish war. Hitler is mortal. It is at least conceivable that his power might be cut short, quickly changing world history, by some force other than British and French guns. That would be so much the better, strongly increasing our chances of working out a normal recovery rather than a war boom.

"Storm Cellar" Stocks and "War Babies"

(*Continued from page* 559)

has undermined the former strong trade position of Gillette and cut into the company's earnings. General Refractories is eliminated because of its pronounced "prince and pauper" characteristics. Both Standard Oil of N. J. and Gulf Oil are two of the foremost integrated oil units, noted, however, for their ultra conservative dividend policies. Our reader's funds can probably be used to better advantage in issues offering a better income return. All of these issues could be replaced by 50 shares of American Can and 50 shares of Woolworth, both attractive on an income basis and for at least moderate promise of appreciation.

While certain that the foregoing changes advocated in our reader's list will not only improve the investment quality of his holdings as a whole but provide the desired increase in income as well, we are obliged to concede the live possibility that over the next six months or so his present list might well show a greater percentage of price appreciation, assuming that nothing intervenes to alter the promising business and market prospect. War is a reality which may alter the position of many industries and companies. Several of the issues which would be eliminated are low priced and would doubtless show in a rising market a much larger gain percentagewise than the higher priced issues which are recommended to replace them. In the circumstances, our reader may prefer not to disturb his holdings immediately, particularly as there appears to be some doubt as to the imminence of the need for a larger income.

Ahead:

(*Continued from page* 552)

relative position once the uptrend was halted in 1937.

Certain facts we already know about each of these industries can be checked against the action of their stocks under various conditions. The outstanding fact about the chemical industry is its growth in the last two decades. Even with two issues which have failed to reach half-way to their 1929 highs on the recovery and which have since fallen to points practically equaling their 1932 lows, the group is far above parity with the market of 1925. Strength in the setting of a market break is another characteristic of the chemicals. Though they sell at high price-earnings ratios, their steady growth in business and the stabilty of the selling prices for their products are constantly in the minds of shoppers looking for bargains. Competition to buy the better chemical issues in the midst of a slump is far keener than in most other groups.

The danger of generalizing too freely is recognized. Financial strength and progressive managements are characteristics of the chemical industry, but such things cannot be assumed without question in the case of any particular company. Even the best of them reach points beyond which further growth is at a diminishing rate, and unless the market sees this clearly earnings are likely to be too generously capitalized in market prices. Du Pont, for instance, has few equals in all the qualities that make a company grow and it justifies the high rating given its securities by continuing to break old records. Each time, however, surpassing previous marks is harder. There must eventually come a time when the ultimate limit of earning power has been seen; no one can do more than guess as to when that will be, but each new record obviously reduces the possibilities for further growth. A smaller company, even if lacking some of du Pont's outstanding elements of strength, has the one great advantage of "room to grow."

Without intent to make any other point but this, a chart of comparative market action of du Pont and Monsanto Chemical is shown. Both have records strikingly above the average and both have most of the elements making for success in their industry, or any other. But Monsanto has been favored over the past decade by a more recent start; it has been closer to the stage of mushroom growth. The investor interested primarily in growth prospects will almost invariably find it necessary to turn to the smaller companies in an industry, giving up certain qualities he would prefer to have in his investments in order to secure the advantages of the adolescent.

The farm equipment group has had trouble holding its own with the market over the last two years. For a while in 1937 the leaders in this industry gave every indication of a new lease on life both in earnings and market action. Since it is made up of companies varying widely in strength, capitalization and long term outlook, generalizations are even more dangerous here than in the case of the chemicals. Two issues shown in the table exceeded their 1929 high market prices on the recovery and two stopped at less than 40% of the former highs. As a group the farm equipments made their high in relation to the market in July, 1937.

Concentrated strength in this group is not ordinarily considered the last gasp of a dying bull market, but two years ago it certainly was and observation in the future will decide whether these stocks are to acquire some characteristics of the steels.

All through the early months of the year it appeared that Federal subsidies would succeed in making 1939 better than 1938 for the farmer and for the companies from whom he buys his machinery. Recent reports are less optimistic, though, and it may be that the market has been better informed than the government statisticians and estimators. The group has been very consistent in losing ground over the past three or four months and has been substantially written down against the main body of stocks for two years. Commodity prices and political developments hold the key to future action. Since the larger companies are heavily interested in the export business in agricultural machinery, growing unrest abroad may have been a large factor in the poor action of the past two years.

Coppers had a bulge in 1933 but soon fell back to their former relationship with the market as a whole and it was not until 1935 that their relative action improved again. From then until the spring of 1937, however, their rise in terms of the comprehensive average was practically uninterrupted. Since then they have, considering the fact that issues in this group are thought more speculative than, say, the chemicals, given a very fine performance. After slipping badly in the fall of 1937 they made a base in terms of the market average which has since been held in impressive fashion.

The most obvious explanation of good action in the coppers is their attractiveness as war hedges; certainly it would serve to explain very recent behavior. It may be, of course, that the inflation talk which turned out to be 90% talk in 1933 has been changed into an imminent possibility by now.

Of the issues in the three groups shown in the table five managed to cross their 1929 peaks on the recovery to 1937. Three of these were chemicals and two were farm equipments, although including Caterpillar Tractor in this category is undoubtedly stretching a point. The outstanding performance of all the issues tabulated was that of Dow Chemical which still sells some 50% above its high in the last boom. Monsanto Chemical also has the distinction of selling above its 1929 high.

Resistance to decline in the slump which set in during 1937 was naturally far better than at the bottom of the 1932 depression. Two stocks held more than ten times above their former low points. The two which were outstandingly poor in this respect, aside from Granby, can blame repeal for their record. One farm equipment — Minneapolis - Moline —has broken its 1937-1938 low already this year.

Similar methods of charting and tabulating the action of various issues will be followed when other groups come up for consideration. In this way it is hoped that a truly detached appraisal can be made of the factors surrounding each—an appraisal based on the obvious results and the assumed causes. Development of additional background in the shape of diversified groups will permit eventually a comparison for current attractiveness, considering market prices and outlook. As the series continues it is also probable that readers will find their own opinions crystallizing on the questions with which this article began: Is this a new recovery or a continuation of an older one? Are the laggards of 1932-37 about to come into their own?

As the Trader Sees Today's Market

(Continued from page 565)

of the month members increased their proportion to as high as 78%. As the rally subsided their sales also dwindled in relative size.

The July rally found members greatly increasing their sales as the market worked into higher ground. By the 18th of the month and again at the 24th they were doing practically 90% of all round lot short selling. If the reader will turn to the chart of daily prices shown in the market article on page 545 he will see that these were the ideal occasions for short selling. On the 27th of July total short sales amounted to 24,500 shares, of which members accounted for 24,400 shares and the public for 100 shares. That day the short selling was 99½% professional; by the 31st the professional selling had droped to 63%.

The difficulty in drawing rigid conclusions from the figures now available is that while sales are shown daily, net positions are shown only at the end of each month. Many trades are closed out during the same day, but some positions are kept for a week or two and yet never appear in the tabulation of the short interest. We can now identify the amount of short selling by the days on which it occurs, but until we can place the covering purchases more exactly we can only estimate the effect of the selling.

The ideal solution for the whole problem would be along the lines of a suggestion sponsored by this magazine some time ago. Let all short sales be allowed at any price not lower than the previous sale. This would prevent knocking prices down, yet permit the free use of short selling to effect hedges and to oppose the further advance of a high price level. Then label each sale of this sort on the tape with a single character, omitting it perhaps in times of a late tape, but keeping a record of these sales open to the public. These two provisions would settle the question of the desirability of a short position and they would bring about a much fairer set of conditions as between the public and members on the floor. All short sales are required to be so designated under current rules, but the public is not allowed to see the order slips. There is no reason why this information belongs to certain people and not to others; the whole idea is as archaic as would be the confidential release to certain groups of reports on brokers' loans or of loaning premiums on certain stocks. The floor member now has the double advantage of knowing where short sales have been taking place and of being able to shop around when he wants to take a short position until he finds an issue which offers the opportunity. In an active market the outsider has very little chance to do this. Selling by members is, on the basis of the record so far available, a healthy influence. There is no reason, though, why the public should not be given equal knowledge of what is going on and equal opportunity to trade on both sides of the market.

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